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KOSOVO UNDER UNSCR 1244/99 2009 PROGRESS REPORT

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TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2009-2010

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COMMISSION STAFF WORKING DOCUMENT

KOSOVO UNDER UNSCR 12/4499 2009 PROGRESS REPORT

1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and Parliament on progress made by the countries of the Western Balkans region.

This report largely follows the same structure as in previous years. The report:

- briefly describes the relations between Kosovo¹ and the Union;
- analyses the political situation in Kosovo in terms of democracy, the rule of law, human rights, protection of minorities, and regional issues;
- analyses the economic situation in Kosovo;
- reviews Kosovo's capacity to implement European standards, that is, to gradually approximate its legislation and policies with those of the *acquis*, in line with the European Partnership priorities.

The period covered by this report is from early October 2008 to mid-September 2009. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting Parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. Many other sources have also been used, including contributions from the Kosovo authorities, the EU Member States, the EU Special Representative in Kosovo, the EU rule of law mission (EULEX), European Parliament reports² and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Kosovo in its separate communication on enlargement³, based on the technical analysis contained in this report.

In parallel to this report, the Commission has adopted a Communication "Kosovo* – Fulfilling its European Perspective" to the European Parliament and the Council.

¹ Under UNSCR 1244/1999.

² Until September, the rapporteur for Kosovo was Mr. Joost Lagendijk. Since September, the new rapporteur is Ms Ulrike Lunacek.

³ Enlargement Strategy and Main Challenges 2009-2010 (COM(2009) 533 of 14.10.2009).

* Under UNSCR 1244/1999.

1.2. Context

During the reporting period, the UN Secretary General (UNSG) issued three reports on Kosovo. The November 2008 report led to the full deployment of EULEX under the umbrella of UN authority. In March 2009, the UNSG noted the accelerated process of reconfiguring the UN mission in Kosovo (UNMIK) with a view to adapting its functions to the changed circumstances on the ground. The June 2009 report indicated that the remaining functions of UNMIK, reduced to about 10% of its strength compared to last year, would include monitoring, reporting and facilitating, where necessary and possible, arrangements for Kosovo's international engagement.

KFOR, the NATO-led international military presence in Kosovo, continues to be responsible for overall security. In recognition of the evolving situation in Kosovo, KFOR has initiated a gradual reduction of its presence in theatre.

In April, the International Court of Justice received 36 written submissions presenting arguments on whether Kosovo's declaration of independence is in accordance with international law.

In June, Kosovo became a member of the International Monetary Fund and the World Bank.

To date, Kosovo has been recognised by 62 UN Member States, including 22 EU Member States.

1.3. Relations between the EU and Kosovo

Kosovo is participating in the **Stabilisation and Association Process**. Plenary meetings of the *Stabilisation and Association Process Tracking Mechanism (STM)* were held in December 2008 and June 2009. Six sectoral STM meetings were held in the areas of innovation, internal market, good governance, economy, infrastructure and agriculture during the first half of 2009.

In December 2008, EULEX was deployed throughout the territory of Kosovo, assuming responsibilities in the areas of police, customs and the judiciary. The mission reached full operational capacity in April. Recent incidents resulted in damage to EULEX property; Kosovo needs to ensure continuing support for EULEX's work

In February, the European Parliament adopted a resolution underlining the European Union's commitment to playing a leading role in ensuring the stability of Kosovo and the Western Balkans as a whole and reiterated its willingness to assist the economic and political development of Kosovo by offering clear prospects for EU membership. The second European Parliament-Kosovo inter-parliamentary meeting took place in April. A joint statement was issued, expressing satisfaction with the overall stability of the political situation in Kosovo.

In February, the Council renewed for 12 months the mandate of the EU Special Representative in Kosovo, enabling him to continue with his close working relationship with the Kosovo authorities. The EU Special Representative is also the International Civilian Representative for Kosovo.

In March, the authorities organised a High-Level Forum for Donor Coordination as a follow-up to the Donor Conference for Kosovo organised by the European Commission in July 2008.

Kosovo's authorities gave an account of achievements and challenges in key sectors of reform. Donors expressed their continuing support for Kosovo's European agenda.

Kosovo continues to benefit from the Instrument for Pre-accession Assistance (IPA), macro-financial assistance, Community Assistance for Reconstruction, Development and Stabilisation (CARDS), the Instrument for Stability (IfS) and other sources of funding. Almost € 500 million has been committed for Kosovo through IPA over the years. The latest Multi-annual Indicative Planning Document 2009-2011, which identifies the main areas and priorities of IPA assistance, was adopted in July. Over € 103 million has been allocated in the IPA Annual Programme for 2009. The EC continues to support the strengthening of the rule of law, public administration reform, communities, culture and youth, wider socio-economic issues including trade and regional development, education and employment, and agriculture. In April, the government appointed the chief executive of the Agency for the Coordination of Development and European Integration as Kosovo's IPA coordinator.

For the improvement of civil society participation in policy dialogue and formulation €1.7 million is set aside under IPA 2008. Areas, such as environment and equal opportunities (anti-discrimination measures and social inclusion of vulnerable groups) receive special attention. A further €3 million are foreseen under IPA 2009 for the benefit of civil society, including the protection of minority rights and empowerment of disadvantaged groups. The European Instrument for Democratisation and Human Rights also supports these issues.

In response to the economic crisis, an IPA *crisis package* has been created, comprising €200 million for the Western Balkan region which are expected to leverage investments of at least €1 billion, co-financed by the partner financial institutions. Kosovo will benefit from a share of multi-beneficiary funds for competitiveness, SMEs, energy efficiency and banking sector regulation. Kosovo benefits from a share of the €85 million of multi-beneficiary funds programmed to boost competitiveness, support SMEs, energy efficiency and banking sector regulation in the Western Balkans. In addition, annual IPA funds were programmed to boost the infrastructure investments. A total of €25 million were committed to the Infrastructure Project Facility for two projects on water/sewage networks and the improvement of district heating.

2. POLITICAL CRITERIA

This section examines the progress made by Kosovo towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and respect for international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

2.1. Democracy and the rule of law

Constitution

The Constitution of Kosovo is in line with European standards, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and

protection of minorities. Ensuring full respect for the rule of law, human rights and the protection of minorities is a key priority in the European Partnership of 18 February 2008.⁴

Parliament

The assembly annual work plan for 2009 has been adopted and is in line with the government's legislative strategy. During the reporting period the assembly carried out its *ex ante* responsibilities as regards the budget. It intervened to safeguard the funding allocated to institutions, and reviewed reports on their expenditure *ex post*.

The interaction between the assembly and civil society has improved. The assembly appointed the Ombudsman in June 2009. However, dialogue between the assembly and civil society is not sufficiently developed.

The assembly adopted a resolution on Kosovo's priorities and strategies for EU integration. The assembly action plan was adopted in February. It provides guidance and allocates tasks to all assembly committees for overseeing the government's implementation of the European Partnership priorities. The assembly committee for European integration is tasked with monitoring the effective implementation of the action plan. The committee's financial and administrative capacity needs strengthening. Cooperation between this committee and the Agency for Coordination of Development and European Integration needs to be developed further. Assembly committees need to improve their administrative capacity and technical skills to scrutinise legislation. Parliamentary oversight of the executive branch needs further improvement.

The 2009 work plan for the Central Election Commission has been adopted. The chief executive of the Commission's Secretariat was appointed in May. The Political Parties Registration Office has been established but is not yet fully operational. The Commission continues to rely heavily on OSCE support. Its capacity is weak and staff turnover is high.

Overall, the assembly has made some progress in a number of areas, notably as regards streamlining its working procedures. The capacity to scrutinise draft legislation and monitor its implementation after adoption is in need of further improvement. Parliamentary oversight of government needs to be enhanced.

Government

The main structures of government have been put in place and function in line with relevant constitutional provisions. Most senior positions have now been filled with the appointment of the Deputy Ministers for Trade, Foreign Affairs and the Kosovo Security Force.

Political stability has been maintained. The government consolidated further its capacities by establishing the Ministry for the Kosovo Security Force, the Kosovo Security Council and the Kosovo Intelligence Agency. However, democratic oversight of Kosovo security sector needs to be strengthened.

In January, the government presented its 2008 annual report to the assembly. The Law on Foreign Service and the Law on Consular Services of Diplomatic and Consular Missions have been adopted. In March, the government organised a high level forum taking stock of

⁴ Council Decision 2008/213/EC.

progress made since the Donors' Conference for Kosovo of July 2008 and updating donors on the implementation of reforms.

The government continued to build its capacity for EU approximation and to strengthen the Agency for Coordination of Development and European Integration. A revised European Partnership Action Plan was adopted in August. This is an important step forward, but further prioritisation is needed. The government now needs to focus on its implementation. The Agency is acquiring a growing role in this respect. A new director has been appointed and the Agency's working structures have been approved. The January strike by its employees was resolved. However, the Agency needs more consistent political guidance from the ministerial council for European integration. The government's delivery on EU integration commitments needs to be significantly improved. The Agency for Coordination of Development and European Integration needs to assume a central role in this regard, with increased high-level political support to carry out its mandate.

There has been some progress in the area of local government administration reform and decentralisation, which is a key European Partnership priority. Working groups have been formed on legislative reform, establishment of new municipalities, devolution of competencies and resources, information campaigns, donor coordination and capacity building. The Ministry of Local Government Administration adopted the medium-term strategy 2009-2012. Local elections have been announced for 15 November. Kosovo needs to ensure that they are conducted in line with international standards. A particular challenge will be to ensure that all communities take part in the elections.

However, inter-ministerial cooperation and coordination remain weak. The Law on Government has not been adopted. The central policy guiding role of ministerial councils is not fully implemented. The capacity of local government is still weak. The Law on the City of Pristina has not yet been adopted. An effective mechanism to monitor and assess the quality of service delivery by municipalities is still lacking.

The security situation remains of concern in the north. The government needs to strengthen its efforts in this respect. Further efforts are needed to address the reluctance of Kosovo Serbs to take active part in Kosovo's institutions, including in the forthcoming local elections.

There have been cases of political interference in appointments to key civil service positions (including senior civilian positions within ministries, boards of publicly-owned enterprises, Ombudsman's office, Constitutional Court). This has affected the credibility of Kosovo's institutions to manage appointment processes in a fair and transparent manner.

Overall, the recently established government structures function and political stability has been maintained. Some progress has been made as regards the adoption of legislation and capacity building. There has been certain progress in local government reform. Effective implementation of decentralisation to the benefit of all communities remains a major challenge. Inter-ministerial coordination needs further strengthening. Political interference in high level appointments is an issue of concern.

Public administration

The review of tasks and responsibilities within the public administration (the functional review) has been completed and the majority of its recommendations implemented. Separate reviews have been completed for the Ministry of Public Services,⁵ the Ministry of Local Government Administration, the Ministry of Internal Affairs and the Kosovo Land Registry. Six working groups have been set up to oversee the public administration reform process. They report to the inter-ministerial committee chaired by the Deputy Prime Minister.

During the reporting period, the Independent Oversight Board resolved 166 appeals by public administration employees. The Board is an autonomous body reporting directly to the assembly of Kosovo. The last two of two of overall eight members were appointed by the assembly in July.

However, important legislation relating to public administration reform is yet to be adopted, notably laws on the civil service, on salaries and on the organisation of public administration institutions. These laws are essential in ensuring the independence of the civil service. A clearer distinction is needed between civil servants and political appointments. The Senior Public Appointments Committee is not fully functional. This has hampered the recruitment process for senior positions in ministries. The administrative capacity of the Committee's Secretariat remains limited. The office of the Ombudsman needs to be strengthened further.

Training and certification of civil servants continues to be provided by the Kosovo Institute of Public Administration. However, the Institute has limited capacity and resources, which affects the quality and amount of training provided. It needs to be better integrated in the activities of the Regional School for Public Administration. Further efforts are needed to reinforce the capacity of institutions in charge of public administration reform as well as to allow the transfer of knowledge and best practices across the region.

Overall, there has been some progress as regards public administration reform with the completion and the continuing implementation of the functional review. Key legal acts need to be adopted. Ensuring the delivery of public services to all people in Kosovo and establishing a professional, accountable, accessible, representative public administration free from political interference is a key European Partnership priority. This has not been fully guaranteed. The capacity of Kosovo's public administration remains weak. Substantial efforts are needed to ensure the transparency of public appointments.

Judicial system

The Law on the Constitutional Court has been adopted. The six Kosovan judges, including two representatives of minority communities, were nominated by the Assembly in May and appointed by the President in June. The International Civilian Representative also appointed the three international judges in June. However, Kosovo has still to adopt a package of four reform laws: on Courts, on Kosovo Judicial Council, on Prosecution and on Prosecutorial Council.

The Ministry of Justice gained new responsibilities in the field of international cooperation. As of March, its department for legal affairs handles requests from other countries, such as extraditions, executing court sentences, transferring criminal records, etc. UNMIK remains responsible for international judicial cooperation with countries that have not recognised

⁵ In May, the Ministry of Public Services was renamed the Ministry of Public Administration.

Kosovo, including for requests coming from Serbia. It continues to be the point of contact with Interpol. A clear procedure for international legal cooperation needs to be adopted and consistently followed by courts and prosecutors. The administrative capacity of the ministry remains weak. Its legal department needs strengthening.

During the reporting period, Kosovo adopted a number of other important laws related to the judiciary: the Law on Notaries, the Law on Contested Procedure (Civil Procedure Law), the Law on the Bar, the Law on Mediation, the Law on Supplementing and Amending the Kosovo Criminal Code, and the Law on Supplementing and Amending the Kosovo Code of Criminal Procedure. The Law on the Temporary Composition of the Kosovo Judicial Council was adopted in December. The Council members were appointed in July; the Council is already operational. However, the law contains provisions which are not in line with European standards. Its delayed implementation disrupted the activities of the Council, thus impacting on the continuity of court management and the conduct of disciplinary investigations for sitting judges.

Allegations of corruption and misconduct in the judiciary have not been adequately investigated. The Office of the Disciplinary Counsel responsible for this activity is not fully functional. The Judicial Audit Unit has issued recommendations regarding the functioning of the courts that have not been properly taken into account by the Kosovo Judicial Council. The process of vetting and re-appointing judges and prosecutors in Kosovo has started under the supervision of the Independent Judicial and Prosecutorial Commission. However, the reluctance of judges and prosecutors from the Kosovo Serb community to be involved in this process remains an issue of concern. The Committee for bar examination is not functional, which has narrowed the participation in the process.

Courts across Kosovo have been equipped with new computers, allowing the installation of the court management information system software and the registration in the system of all case data from the old registry books. The system is operational in most Kosovo courts; training on how to use it continues.

EULEX judges and prosecutors have been deployed. The Law on Jurisdiction, Case Selection and Case Allocation of EULEX Judges and Prosecutors in Kosovo was adopted. EULEX made 100 judicial decisions and pronounced 27 verdicts, mostly in criminal cases. The mission has also initiated an investigation into allegations of organ trafficking.

There have been several strikes in the judicial sector. This has resulted in further undue delays in a number of trials. There has been no significant improvement in reducing the backlog of civil and criminal cases, including by the Supreme Court. The Special Chamber of the Supreme Court responsible for cases related to privatisation is paralysed, due to the lack of local judges. This is a matter of serious concern. Cooperation between the prosecutor's office and the police is limited.

There has been no progress in dealing with cases related to the March 2004 events. The handling of criminal cases in this context continues to be complicated by a number of issues, such as the disappearance of evidence and witnesses' statements, the displacement of people, the refusal of some Kosovo Police officers to cooperate and the intimidation of witnesses, judges and prosecutors. The court in northern Mitrovicë/Mitrovica is composed of EULEX judges and prosecutors only and works with limited capacity. Rule of law in northern Kosovo is not guaranteed. Both Kosovo and Serb authorities need to make efforts in this respect.

Overall, Kosovo is at an early stage in addressing priorities in the area of justice. The justice system remains weak, vulnerable to political interference and inefficient. There is a considerable backlog of cases. The structural problems of Kosovo's prosecution service need to be addressed. Kosovo's Judicial Council does not function effectively. Kosovo's judiciary is still in need of a major reform and the government needs to ensure the participation of the Kosovo Serb community in the process. The Kosovo Serbs also need to take proactive and constructive steps in this regard. Ensuring full respect for the rule of law is a key European partnership priority.

Anti-corruption policy

Kosovo has made limited progress in tackling corruption. The Kosovo Anti-Corruption Agency is now fully operational and staffed. The Agency signed a series of memoranda of understanding with other relevant institutions, such as the Independent Judicial and Prosecutorial Commission (to allow exchange of information on corruption cases in the judiciary system), the Financial Intelligence Centre, the Head of EULEX Prosecutors and the Ombudsperson.

However, the legal framework for tackling corruption needs to be urgently improved. Kosovo still needs to adopt the Law on the Declaration and Control of Assets and amendments to the Law on Anti-Corruption and to the Law on Conflicts of Interest. The anti-corruption strategy and action plan are yet to be adopted. To date, there is no law on the financing of political parties. The strength of the supervisory mechanisms and the lack of transparency regarding the funding of political parties remain issues of serious concern. The institutional framework remains fragmented. There is a lack of cooperation among relevant actors, notably between the Agency and the prosecutor's office. The inter-ministerial working group on anti-corruption has also failed to deliver tangible results.

Overall, there has been limited progress in the fight against corruption, which is a key European partnership priority. Corruption remains prevalent in many areas in Kosovo and continues to be a very serious concern. The legislative and institutional framework needs to be strengthened. Cooperation between the Agency and the prosecutor's office needs to be improved. Kosovo needs to develop a track record of investigations, indictments, prosecutions and convictions in anti-corruption cases.

2.2. Human rights and the protection of minorities

Observance of international human rights law

Kosovo's cooperation with human rights bodies is limited since Kosovo is not a member of the UN nor of the Council of Europe. Consequently, Kosovo's citizens do not have the possibility to lodge a complaint with the *European Court of Human Rights* against Kosovo's authorities. As regards the *promotion and enforcement of human rights*, in December 2008, the government approved the strategy and the action plan on human rights for the period 2009-2011.

However, the mechanisms to ensure their implementation are not yet in place. Some municipal human rights units are not operational, in particular in Kosovo Serb majority municipalities, which are reluctant to cooperate with the central authorities. The Ombudsman office has only limited oversight as regards Serbian parallel structures. The human rights units

at the central level (e.g. Ministry of Justice, Ministry of Public Administration) mandated to implement the Ombudsman's recommendations are not yet fully operational.

Overall, there has been some progress in this area, notably the adoption of the human rights strategy and action plan. However, the institutional framework for the observance of international human rights norms in Kosovo needs to be significantly strengthened. Ensuring full respect for human rights is a key European Partnership priority.

Civil and political rights

As regards the **prevention of torture and ill-treatment** and the **fight against impunity**, Kosovo's response to the 2007 report of the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment was made public in January. The recommendations of this report were taken into consideration by the Ministry of Internal Affairs and by the Kosovo Police.

Investigations of serious violations, including in police detention centres, continue to be carried out by the Police Inspectorate of Kosovo. The Police Inspectorate is independent and reports to the Minister of Internal Affairs. Investigations of minor offences are carried out by the Professional Standards Unit of the police.

The Ministry of Justice is taking steps to address complaints of misconduct in prisons and detention centres. The victim, advocacy and assistance division within the Ministry continues to provide assistance to victims of domestic violence and trafficking. Impunity remains an issue of concern. For many offences, the authorities still need to identify the perpetrators and bring them to justice as well as to protect and compensate victims.

Overall, there has been some progress in addressing torture and ill-treatment. The fight against impunity remains an issue of importance for reconciliation between communities.

The Office for Missing Persons and Forensics continued to develop its capacity with the support of EULEX. During the reporting period, it performed 41 field operations (26 exhumations resulting in the excavation of 23 bodies and the assessment of 15 additional potential sites). The Office has intensified its work sending about two hundreds new bone samples for DNA analysis. The remains of more than 40 victims have been returned to their families. The Working Group on Missing Persons, comprised of Belgrade and Pristina delegations and chaired by the International Committee of the Red Cross, continues to meet regularly. The Committee has consulted twenty countries whose contingents were deployed in Kosovo in 1999 in order to collect documentation on outstanding cases. At the beginning of 2009, the government's Commission on Missing Persons set up a secretariat, which is gradually becoming operational.

Overall, progress on missing persons remains slow ten years after most disappearances: less than 40 cases have been closed since the European Commission's last progress report, leaving the total number of missing persons at over 1,800. The lack of information on non-identified burial sites is hindering further progress. There is no law on forensics and no department of forensic medicine. There is no law on missing persons. The issue of compensation for the families of missing persons needs to be resolved.

In the area of **access to justice**, the Office of the Legal Aid Coordinator increased its outreach activities by setting up a website and a database. Between October and July, over 1,400

persons benefited from free legal aid. The Office signed a memorandum of understanding with the Chamber of Advocates to streamline free legal representation and further improve outreach to citizens.

However, the resources of the Office of the Legal Aid Coordinator are limited and staffing levels are low. The biggest number of complaints to the Ombudsman between July 2008 and June 2009 relate to access to courts (civil proceedings). Access to justice in areas inhabited by non-majority communities and especially in northern Kosovo is not guaranteed. The absence of a functioning judiciary in the north seriously limits access to justice for all communities. There is no Kosovo Serb representative in the district legal aid office based in Mitrovicë/Mitrovica south.

Overall, the Office of the Legal Aid Coordinator has improved its outreach activities and its cooperation with the Chamber of Advocates, but further progress is needed in order to improve access to justice in Kosovo.

As regards the **prison system**, the Kosovo correctional service under the Ministry of Justice is operational, with EULEX retaining certain competences. Security measures have been upgraded in the high-security facilities and technical equipment improved, including vehicles for prison escorts.

However, the Law on Execution of Penal Sanctions needs to be amended in line with European standards. There are still no adequate facilities for detention of mentally-ill criminal offenders and criminal offenders with diminished mental capacity. There is no separate space in the Lipjan/Lipljan correctional facility allocated to juvenile female detainees. Reintegration of juveniles after release is a matter of concern. Facilitating the transfer of Kosovo detainees from other countries needs to be improved. Kosovo needs to take steps to accommodate an anticipated increase in the number of returned prisoners.

Most Kosovo Serb detainees are in the Mitrovicë/Mitrovica detention centre, which is not equipped for long-term detention. Support from Prishtinë/Priština is limited. Most of the detainees are pre-trial detainees. Other Kosovo Serbs are detained in the Gjilan/Gnjilane and Prishtinë/Priština detention centres.

The role of the probation service is still poorly understood. The law in place provides that prosecutors can send juvenile offenders directly to the probation service (bypassing courts). The mechanism of using alternative sentences is weakened by the general lack of support and awareness within the judiciary system. If properly established, it would reduce the current backlog. The interaction of the probation service with the police and other stakeholders involved in this sector needs to be better structured. There is a need for more concrete initiatives to promote social/economic re-integration of probation services' beneficiaries.

Overall, some progress has been achieved with regard to correctional facilities, but serious challenges remain.

As regards **freedom of expression**, the independence and impartiality of the publicly-owned Radio and Television of Kosovo (RTK) are not fully ensured. Three years after its entry into force, the Law establishing RTK is still not being adequately implemented. A member of the government takes part in the Assembly committee responsible for selecting RTK's board, which is yet to be appointed. This is not in line with the Assembly's rules of procedure. There have been a series of public debates with the participation of the Press Council and the

Association of Professional Journalists of Kosovo on cases of political interference in the work of the media. The Law on Access to Official Documents is not fully implemented.

Overall, freedom of expression is not fully guaranteed. The relevant institutional framework is not operational. Cases of political intimidation call for more robust measures by the Kosovo authorities.

The **freedom of association** and assembly is guaranteed under the Constitution. The Law on Freedom of Association in Non-Governmental Organisations was adopted in February. The Law on Public Gatherings was adopted in December 2008. **Civil society** continues to depend mostly on international funding, leading to project-based and donor-driven agendas with limited sustainability and long-term strategic positioning. The monitoring capacity of NGOs is limited, their participation in the legislation process poor.

Overall, civil society has developed further but the environment, in which it operates needs to be significantly improved.

In relation to **freedom of religion**, the Law on Holidays recognises Orthodox, Islamic and Catholic holidays. The ongoing reconstruction and hand-over of orthodox sites under the auspices of the Reconstruction Implementation Commission is a positive development. However, there is only limited dialogue between different religious communities. Security concerns mean that pilgrims often ask to be escorted by security forces to cemeteries or religious sites in minority areas. This legal framework for religious activities is inadequate as religious communities are required to register as NGOs to acquire legal identity.

Overall, there is some progress as regards the reconstruction of religious sites, but more remains to be done to reconcile and integrate the religious communities. Ensuring the full respect of religious freedom is a key European Partnership priority.

Economic and social rights

In the area of **women's rights**, the Agency for Gender Equality continues to monitor and facilitate the implementation of the Framework Programme for Gender Equality 2008-2013 in accordance with the Law on Gender Equality. The Agency has increased its capacity. The percentage of women occupying decision-making positions in public administration bodies has slightly increased to over 20%. Ministries have set indicators to measure performance of gender equality policies and programmes.

However, gender equality officers have not been appointed in all ministries and gender equality committees have only been established in two out of 30 municipalities. Equal representation remains a challenge at all levels, particularly in minority communities. None of the non-Albanian senior positions is held by a woman.

The establishment of domestic violence units and training of officers on assisting victims is a positive step in the police's efforts to address domestic violence. However, high levels of domestic violence persisted. Many cases are not reported. Few reported cases of violence are prosecuted in court. The majority of trafficking victims are women. The six shelter facilities are inadequate and do not provide a sufficient level of security. Delays in issuing protection orders remain an issue of concern.

Overall, the institutional framework for the protection of women's rights has been strengthened, but domestic violence remains widespread and is a serious concern. The protection of women against all forms of violence needs to be considerably strengthened.

Children's rights are included in the Strategy on Human Rights 2009-2011. The Children's Rights Strategy and the related action plan were adopted in June by the inter-ministerial Committee for Children's Rights chaired by the Prime Minister. The Office for Good Governance appointed a children's rights officer. The Action Plan for People with Disabilities 2009-2011 incorporates the rights of children with disabilities in the sections on education, child protection and health. The Ministry of Justice has made the reform of the juvenile system a priority.

However, there is still no legal protection for children with disabilities. Only 10% of children with special needs attend compulsory education. More generally, school drop-out rates remain high particularly at upper secondary level (17% for boys and 9% for girls). Child trafficking and child labour remain a concern. Efforts to address these phenomena need to be stepped up, in cooperation with relevant organisations and in coordination with efforts in other areas, such as education and social welfare. Children's access to justice is yet to be ensured. The lack of coordination between local and central structures hampers the implementation of the Juvenile Justice Code.

Overall, child protection remains weak. Further efforts are needed to guarantee children's rights.

In the area of the **socially vulnerable** and **persons with disabilities**, the Action Plan for People with Disabilities 2009-2011 was adopted in April. It is the result of a consultative and inclusive process with the participation of civil society organisations. In December, the government approved the decision on reactivating and reorganising the Council for Persons with Disabilities.

However, statistical data on disabilities is not available. Access to education facilities for people with physical disabilities remains difficult. The lack of mental health legislation is detrimental to the treatment of patients. The lack of adequate health and rehabilitation services remains to be addressed. Illiteracy among people with disabilities remains high.

Overall, the integration and protection of socially vulnerable groups, in particular abandoned children, returnees and people with disabilities needs to be enhanced.

In the area of **labour rights and trade unions**, the Ministry of Labour and Social Welfare has started a constructive cooperation with international partners to address the numerous challenges existing in the sector. It takes part in the Sustainable Employment Development Policy Programme and benefits from expertise provided via EU technical assistance projects.

Overall, labour legislation is poorly implemented and remains weak, and trade unions are not sufficiently active in the social dialogue.

Anti-discrimination provisions have been included in the Strategy and Action Plan for Human Rights in Kosovo 2009-2011. Equal access to housing, education, employment and social security is not always respected. Awareness of lesbian, gay, bisexual and transgender issues is very low and cases of violence often go unreported. More government awareness

campaigns to counter discrimination are needed. More efforts are needed for the effective implementation and monitoring of the Anti-Discrimination Law.

Overall, discrimination remains an issue of concern. Creating a society free from discrimination of any kind and promoting the integration of disadvantaged groups is a key European Partnership priority.

As regards **property rights**, the Law on Expropriation of Immovable Property was promulgated in April. The law regulates rules and conditions of expropriation at central and local levels. The draft Law on Sales of Apartments where Tenure Rights exist has been amended to regulate the privatisation of socially-owned apartments.

In July, the Kosovo Property Agency signed a memorandum of understanding with the Kosovo Cadastral Agency for access to the latter's database. In August, the Kosovo Property Agency signed a memorandum of understanding with the UNHCR allowing the resuming of activities in Serbia. More than 40,000 claims have been recorded; over half have been adjudicated by the Kosovo Property Claims Commission. As of September 2009, 6,700 decisions have been implemented. Of those, 770 have led to physical repossessions.

Three international members of the Supervisory Board of the Kosovo Property Agency have been appointed. Two local members are yet to be named. Two international judges have been appointed to the Supreme Court panel for appeals against contested decisions by the Agency. Local judges are yet to be appointed and this paralyses the work of the panel. The Agency finalised the compensation scheme for socially-owned apartments, which needs to be approved by the Supervisory Board.

Over 900 properties are currently the subject of an eviction order. The implementation of evictions orders needs to be significantly improved. The implementation of the rental scheme, notably as regards rent collection by the Agency, remains an issue of concern. There is a need for more efficient cooperation with the police to ensure the enforcement of relevant legal provisions.

Not all of the municipalities have digital immovable property rights registers linked with the Kosovo Land Registry. Some land registry books remain in Serbia. The legal status of informal settlement has not yet been resolved; ineffective communication between municipal and central authorities fuels this problem.

Overall, the institutional and legal framework has been strengthened but has led to limited progress in practice in the area of property rights, which is a key European Partnership priority.

Minority rights, cultural rights and protection of minorities

The Kosovo authorities continued their effort to improve the protection, integration and representation of **minority communities**. The planned census needs to be organised and conducted in a way enabling the widest possible participation to ensure it reflects accurately the situation of all communities in Kosovo. The Community Consultative Council has been inaugurated and meets regularly. The Serb community is represented by five members, the Turkish and the Bosnian communities by three members each, the Roma, Ashkali, Egyptian and Gorani communities by two members each and the Montenegrin community by one member.

The Ministry of Culture has established a forum for technical information exchange on **cultural heritage** in Kosovo, improving the coordination of activities in this field. The reconstruction of orthodox sites through the Reconstruction Implementation Commission is progressing; tendering rehabilitation works restarted in May. The new Customs Code adopted in November 2008 provides for the economic activities of the Serb Orthodox Church to be exempted from customs duties and excise tax.

Security of religious and cultural heritage sites is generally assured by the Kosovo Police supported by KFOR. The police operational order of February for the protection of Serbian cultural and religious sites continues to be implemented.

However, there is still no integrated cultural and religious heritage conservation strategy. Unregulated economic development presents a potential risk for the future of religious and cultural heritage. The Law on Special Protective Zones is not fully implemented. The list of protected cultural heritage sites has yet to be adopted. Further clarifications are needed on the institutions' role, including the Cultural Heritage Council. Disputes over land between some municipalities and the Serb Orthodox Church remain unresolved.

The majority of cultural and religious heritage sites in Kosovo are not regulated in spatial plans. Only seven municipalities have spatial plans approved by the Ministry of Environment and Spatial Planning. The protection of sites from unregulated construction in proximity is not ensured. The Law on Spatial Planning is not fully implemented.

Overall, the protection of cultural heritage has progressed but further efforts are needed. Ensuring the protection of cultural and religious heritage, including measures to prevent and prosecute attacks on sites, is a key European Partnership priority.

The constitution and the legislation in force continue to provide a highly protective environment for minority cultural rights in the field of education, language and media.

The right to public **education** at all levels for non-majority communities in the language of their choice is guaranteed by law. The Kosovo curriculum is taught in three languages: Albanian, Bosnian and Turkish. At the level of primary education, textbooks are available in these three languages. In April, the Ministry of Education, Science and Technology established the Independent Commission for Reviewing the Serb Curricula.

The Ministry for Public Services monitors **language** compliance at the central level. Most documents issued by municipalities are not translated into official languages in accordance with the Law on the Use of Languages.

The law also gives guarantees for public **media** to broadcast in minority languages, which led the Independent Media Commission to re-launch the licensing process. The Prime Minister's office adopted a decision in December establishing the Media Minority Fund, receiving fees collected by RTK.

However, implementation and monitoring remain insufficient for all laws pertaining to the protection of minorities' cultural rights. Serbian-speaking pupils of minority communities are often schooled by a parallel educational system. This does not facilitate reconciliation and multi-ethnicity. Kosovo Albanian pupils follow the Kosovo curriculum according to Kosovo law. Kosovo Serb pupils follow the Serbian curriculum according to Serbian law. The absence of a Kosovo curriculum in the Serbian language represents a stumbling block for resolving the

dispute regarding access to education of children from the Gorani minority in the Dragash/Dragaš municipality.

Textbooks in Bosnian and Turkish languages are not yet available for secondary schools. The Kosovan educational system does not offer tailored programmes for Roma, Ashkali, Egyptian, Gorani, Croat and Montenegrin minorities. The lack of provision by municipal authorities of free transportation for pupils from minority communities remains an obstacle to integration. Kosovo diplomas are not recognised by Serbian authorities. This discourages Serbian-speaking students to attend the already limited range of programmes taught in Serbian/Bosnian language at Prishtinë/Priština University.

Most municipalities have not yet issued a regulation on the use of **languages**. Language courses among civil servants are not sufficient to enhance bi-lingualism within the administration. The Central Language Commission is poorly organised, lacks resources to exercise its mandate and lacks visibility among non-majority communities.

RTK does not meet its obligation to broadcast 15% of its programmes in non-Albanian languages. RTK's territorial coverage of minority areas is lower than required by law (90%). Since Kosovo is not a member of the International Telecommunication Union, there is still no international frequency plan allowing Serbian-language TV stations to broadcast throughout Kosovo.

Overall, the promotion of cultural rights of Kosovo's minority communities needs to be strengthened.

Electricity supply in Serb-majority areas is not fully ensured. The majority of villages, populated mostly by Kosovo Serbs, have signed collective agreements with the Kosovo Energy Corporation. The agreements stipulate payment of electricity on a regular basis as per consumption. Accumulated debts to the Kosovo Energy Corporation have been frozen.

The situation of minority communities continues to raise concerns. There is little progress towards reconciliation between communities. The institutional set-up at central level is in need of further improvement. The Ministry for Communities and Returns and the Office of Community Affairs remain to agree on their respective areas of responsibility. Many people from minority communities continue to benefit from the services of parallel structures for education, social protection and health care. The lack of civil status registration is a further obstacle as regards access to services.

There have been a number of incidents of inter-ethnic violence, notably in northern Kosovo. A number of orthodox graveyards throughout Kosovo have also been vandalised. Kosovo Serb police do not systematically report cases and incidents of inter-ethnic violence. The perception of freedom of movement by some minorities remains negative.

Overall, there has been limited progress in the integration of minority communities.

About 850 displaced persons **returned** voluntarily to Kosovo minority areas, fewer than during the previous reporting period. Over 200,000 people from Kosovo remain displaced in Serbia and 16,000 in Montenegro. Overall, 20,000 persons are displaced within Kosovo.

The Ministry for Communities and Returns has installed a database for the registration of displaced people within and outside Kosovo. Several municipalities have adopted municipal return strategies.

However, the pace of voluntary returns is still very low. The lack of employment opportunities, the lack of confidence in the enforcement of property rights and the continuous perception of security threats are cited as being the main reasons for this. The plans for return of some Kosovo Albanians to northern Mitrovicë/Mitrovica has resulted in clashes between Kosovo Serbs and police forces, NATO's KFOR and EULEX.

Municipal return strategies, if adopted, are not fully implemented. Guidance and support from central authorities remain insufficient and a lack of financial resources persists. There is no synergy between the frameworks put in place for voluntary returns and forced returns. Repatriated persons do not have access to temporary accommodation. Persons in need of medical treatment are not always treated. There is no reintegration monitoring mechanism.

Difficulties with civil registration are a concern for returnees to Kosovo. There is no law on civil status. Kosovo is not party to the 1954 Convention relating to the Status of Stateless Persons, nor to the 1961 Convention on the Reduction of Statelessness. There is no legal definition of statelessness in Kosovo.

Overall, the voluntary return process is still limited and remains a challenge for Kosovo authorities. The government is not implementing the Reintegration Strategy for Repatriated Persons in a satisfactory manner. Creating a climate of reconciliation, inter-ethnic tolerance and sustainable multi-ethnicity is a key European Partnership priority.

In December the government adopted the Strategy for Integration of **Roma, Ashkali and Egyptian** (RAE) Communities 2009-2015. In May, the Prime Minister appointed two coordinators to address the issue of the lead-contaminated living areas. A Steering Committee was also set up. The Mitrovicë/Mitrovica municipality has allocated land for the building of houses for the affected families.

However, RAE communities remain vulnerable. Civil status registration and possession of identity documentation remain an outstanding issue. RAE access to essential public services (education, social protection, health care) is still limited. School enrolment of RAE children continues to be a major problem together with the high drop-out rate. High illiteracy rates persist. There are not enough Roma-trained teachers.

The living conditions in some RAE settlements are a serious concern, particularly the lead-contaminated camps of Çesmin Llugë/Çesmin Lug and Osterode. Together with the camp in Leposaviq/Leposavić they pose serious health risks. This is a fundamental violation of basic human rights. Urgent steps are needed to address this situation and follow up on concerns raised by a number of European and international institutions, such as the European Parliament, the Council of Europe and the World Health Organisation.

Overall, the Kosovo authorities need to take urgent steps to address the situation of RAE communities.

2.3. Regional issues and international obligations

Full cooperation with the **International Criminal Tribunal for the Former Yugoslavia (ICTY)** is a key European Partnership priority.

Cooperation between Kosovo and ICTY continued during the reporting period. Discussions between ICTY, UNMIK and EULEX on future cooperation arrangements are in progress to account for UNMIK's reconfiguration.

Overall, Kosovo's external representation remains a challenge. Kosovo's authorities need to take a more consistent and constructive approach. UNMIK is the signatory on behalf of Kosovo of a number of **international agreements** as well as **regional initiatives** (Energy Community Treaty, European Common Aviation Area Agreement, South East Europe Transport Observatory, Central European Free Trade Agreement — CEFTA, Regional Cooperation Council). Under the constitution, the Kosovo authorities ensure Kosovo's regional and international representation. The Kosovo authorities, however, are not accepted as a successor to UNMIK by some parties to these agreements.

UNMIK has facilitated, where necessary and possible, arrangements to enable Kosovo's involvement in regional fora. Kosovo's approach to UNMIK's role has not been consistent. This has led to ad hoc arrangements on a number of occasions. The government needs to develop a comprehensive strategy for external representation and for joining international bodies and organisations.

Kosovan delegates have not been able to participate in all events hosted by countries that do not recognise Kosovo, due to difficulties in relation to the use of Kosovo passports. Such occurrences have become increasingly frequent and hinder the development of effective regional cooperation. The EU has stressed that regional cooperation must be inclusive in order to be successful and regrets that disagreements regarding the manner of Kosovo's participation in regional fora have resulted in Kosovo's absence from key regional events. It is therefore essential that Kosovo's involvement in multilateral fora be ensured, and that all parties concerned demonstrate a constructive and flexible attitude in this regard.

Kosovo representatives were not able to participate in the Annual Meeting of the Regional Cooperation Council, and the Summit of the South East European Cooperation Process (SEECP), held in Chisinau in June 2009, because the Moldovan authorities did not issue visas to them.

In December 2008, Kosovo appointed its representative in the Steering Committee of the Regional School of Public Administration (ReSPA). However, Kosovo's continuous participation in ReSPA is at risk as Kosovo has not yet signed the ReSPA Agreement. Kosovo has not systematically participated in the CEFTA joint committee and subcommittee meetings. No solution has been agreed on how Kosovo should be represented at these meetings.

Kosovo has adopted new customs stamps. The Special Representative of the UN Secretary General has notified them to the European Commission and to CEFTA partners. Serbia does not recognise the validity of these stamps and questions their compliance with UNSCR 1244/99 despite assurances received from the UN SRSG confirming compliance.

There have been incidents where access to Kosovo has been denied for high-ranking Serbian officials. Kosovo's authorities have insisted that such visits be notified to them via appropriate diplomatic channels. Cooperating constructively on matters relating to Serbia is a key European Partnership priority.

In February and March 2009, Kosovo adopted legislation which is not compatible with its obligations under the European Common Aviation Area Agreement (ECAA). Until this legislation is withdrawn, the implementation of the first transitional phase of the ECAA Agreement remains in question.

Kosovo participates in the South East Europe Transport Observatory (SEETO). In December 2008, Kosovo participated in the 4th Annual Meeting of Ministers on the Development of the South-East Europe Core Regional Transport Network in Montenegro, which launched the negotiations for a treaty establishing a Transport Community with the Western Balkans.

Kosovo continued to participate as an observer in the Investment Compact for South Eastern Europe (SEE), designed to improve the investment climate and encourage private-sector development in the region.

There has been some progress on demarcation with *the former Yugoslav Republic of Macedonia*; this process needs to be fully completed. There are no talks on demarcation with other neighbours.

Overall, Kosovo's involvement in regional cooperation initiatives needs to be more constructive and pragmatic. It is important that Kosovo participates in regional fora to keep pace with progress in key areas across the region.

3. ECONOMIC CRITERIA

In examining the economic developments in Kosovo, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

3.1. The existence of a functioning market economy

Economic policy essentials

The government of Kosovo has adopted its fourth Medium-Term Expenditure Framework (MTEF), covering the years 2010-2012. However, this document has not been used as a medium-term policy planning tool. The path documented in the MTEF for Kosovo's fiscal and external balances appears difficult to sustain and the White Paper on social policies is not included, despite commitments made by the authorities at the 2008 International Donor Conference. In general, new pieces of legislation continued to be submitted to the government with no link to the MTEF or any other medium-term policy framework. The weak rule of law continued to be a major obstacle to socio-economic development.

In March 2009, the first meeting in the framework of the fiscal surveillance mechanism with the European Commission took place in Pristina. On 29 June 2009, Kosovo became a member of the International Monetary Fund and of the World Bank. *Overall*, political consensus on the fundamentals of market-oriented economic policies has been maintained. However, the legal framework and the practices of a modern public financial management are still lacking. The public administration has insufficient capacity.

Macroeconomic stability

Real GDP growth in 2008 was 5.4%, up from 5.0% in 2007. Contrary to 2007, a year in which private sector dynamism was the main source of economic growth, economic activity in 2008 and in the first half of 2009 was increasingly driven by the acceleration of public capital spending. Annual growth in private consumption stood at 11.3%, public consumption grew by 3%, and while public investment increased by 194%, private sector investment

declined by 10.2%. The latter resulted partly from the decline in foreign direct investment and the stagnation of the privatisation process. As a consequence of the global economic crisis, since late 2008 exports have been decreasing. However, Kosovo's limited integration into the global economy and a stable financial sector pursuing conservative strategies have so far delayed a stronger impact of the crisis. In addition, the persisting weakness of the statistical system does not allow for a comprehensive assessment of the economic situation in Kosovo.⁶ According to IMF estimates, GDP per capita⁷ in 2008 reached €1,726, which corresponded to 6.9% of the EU-27 average compared with 6.5% in 2007. *Overall*, the unfolding of the crisis affected Kosovo's economy to a limited extent so far. However, the lack of data does not allow a robust assessment for the previous or current year.

In 2008 exports of goods increased by 20.2%, reaching 5.3% as a share of GDP. As in previous years, they were driven by base metals and base metal products, accounting for more than 60% of overall exports in 2008 and increasing 67% over 2007. The second most important export category, mineral products, showed a decrease of about 32% in 2008 vis-à-vis 2007, as international demand fell due to the crisis. In the first half of 2009 exports fell substantially by 39.9%, with the base metals category shrinking by close to 60%. Imports of goods increased by 22.1% in 2008, reaching 50.2% of GDP, up from 44.2% of GDP in 2007. Mineral products (mainly oil), prepared foodstuffs, base metals and machinery remained the largest import categories. Total imports decreased by 1.6% but more than two thirds of the commodity groups still registered positive growth rates.

The coverage ratio of exported to imported goods, traditionally low, decreased to 6% in November 2008 (from 17% in July 2007), as exports contracted with the coming of the international crisis. Exports have further decreased since then. Consequently, the trade deficit widened to 46% of GDP in the first half of 2009, from 43% in 2008 and 39% in 2007.

The current account deficit — including official grants — increased from 10.2% of GDP in 2007 to 16.3% in 2008. Remittances and foreign assistance amounted to 12.1% of GDP (12.5% in 2007) and 7.7% of GDP respectively. Foreign direct investment (FDI) was 13.1% in 2008, compared to 16.7% in 2007. In 2007, about half of FDI was linked to the privatisation process and the licensing of the second mobile telephony operator, while in 2008 the privatisation process stagnated. As in previous years, the net balance on the capital and financial account was lower than the current account deficit, leaving a significant portion of the financing unexplained. *Overall*, an adjustment of the large trade deficit in the first half of 2009 did not take place as the large public works triggered substantial imports of machinery and transport equipment, whereas exports fell sharply.

The poor availability and reliability of labour market data continued to hamper the analysis of labour market developments. The registered unemployment rate in the first half of 2009 remains very high, estimated at 40%, unchanged compared to 2008. More than 90% of registered persons fall into the category of long-term unemployment. The Labour Force Survey also confirms that the unemployment rate is very high and around 40%. Uncertainties on the accuracy of these figures exist. They are based on the fact that little is known about how many of those who are registered unemployed are actually economically inactive and actively looking for employment. Some 30,000 young people enter the labour market every

⁶ The Statistical Office of Kosovo (SOK) has published nominal GDP figures for the years 2004-2007, stressing at the same time that the number and the quality of existing statistical surveys are insufficient for successful implementation of national accounts according to ESA 95 standards.

⁷ A measure using PPP is not available for Kosovo.

year and many of them continue to leave Kosovo to find work abroad. Labour is in fact Kosovo's biggest (non-recorded) export item and the labour force working abroad continues to generate a steady stream of income in the form of remittances which finances a large share of consumption in Kosovo. However, there are no official statistics on labour migration. *Overall*, the level of economic activity does not allow the young and growing labour force to be absorbed. For many, emigrating and working abroad remains the only viable option to support their families in Kosovo.

Average yearly consumer price inflation increased to 9.4% in 2008 from 4.3% in 2007. Monthly inflation rates on an annual basis turned negative in 2009, reaching -3.0% in August. Kosovo was strongly affected by higher food and energy prices between mid-2007 and mid-2008, partly due to the large share of food items in the CPI, but also due to low levels of competition in the economy. Main drivers behind recent negative inflation rate are the adjustment of food prices and lower costs for transportation. On the other hand, the prices of housing-related cost items, including energy and some services that are predominantly publicly provided, have been still rising. *Overall*, price developments reflect the falling international prices. Prices of domestic services have continued rising, partly due to weak competitive pressure in the economy.

The Central Bank of Kosovo (CBK) increased its scope of financial sector supervision and played a positive role in the management of risks related to the international financial crisis. It has also introduced high frequency monitoring of commercial banks. Whereas the CBK is the main institution for financial market regulation and supervision in Kosovo, due to Kosovo's use of the euro as official currency, the CBK has only limited policy instruments at its disposal, such as reserve and liquidity requirements. In the absence of autonomous monetary policy and given the fully euroised economy, real interest rate and real (effective) exchange rate movements remain difficult to predict. Uncertainties regarding property rights and weak rule of law continued to be the main factors for the high risk premiums demanded by the commercial banks. *Overall*, the stability of the financial sector benefited from improved supervision.

After the 2007 budget execution had led to a substantial increase in the government cash reserves, the 2008 fiscal year ended with a broadly balanced budget and government's cash reserve at close to EUR 470 million. Total revenues decreased from 25.9% of GDP in 2007 to 25.3% of GDP in 2008. Revenue collected by the customs services accounted for 64.1% of total government revenues, up from 58.9% in 2007. Total expenditure increased by 44.0% in 2008, reaching 25.3% of GDP, after 18.9% of GDP in 2007. Wages and salaries increased by 9.3%, subsidies and transfers by 32.6%, and capital outlays almost tripled (194.4%) compared to 2007. Thus, public investment reached 7.7% of GDP, up from 2.8% in 2007. Expenditures showed a highly volatile profile. In the first half of 2009 government expenditure continued to rise – wages and salaries were up by 17.0%, subsidies and transfers rose by 25.4% from an already high base in 2008, capital outlays were 34.8% higher than during the first half of 2008. In the first half of 2009 public revenues were not substantially affected by the crisis and they increased by 2.9% compared to the same period in 2008. *Overall*, the 2008 budget was marked by strongly increased spending on capital investment and subsidies and transfers. In view of the challenging economic environment, revenue collection in the first half of 2009 held up well.

With regards to fiscal planning, the Ministry of Economy and Finance (MEF) continued to receive incomplete information from line ministries on important strategic developments with fiscal implications. An important example was the limited involvement of the Ministry in the

transformation of the state-owned energy sector, in spite of its high and increasing needs for transfers and subsidies from the budget. The 2009 budget was influenced by the electoral agenda⁸ and contained large increases in public wages, which lead as a consequence to a continued breach of the fiscal rule as spelled out in the previous MTEF.⁹ The government also continued to initiate legislation without linking it to the MTEF or any other medium-term policy planning document that could ensure some consistency of policies over time. Neither the budget, nor the MTEF have developed into efficient policy instruments. Instead, they continued to respond to ad hoc spending pressures.

Overall, given the absence of autonomous monetary policy, the burden of macroeconomic adjustment remained with fiscal policy; however, the low quality of budgetary planning and execution show that it has to yet fully assume its responsibility for macro-economic stability.

Interplay of market forces

The Competition Council started implementing antitrust policy. The Privatisation Agency of Kosovo (PAK) replaced the Kosovo Trust Agency in June 2008. The PAK resumed the process of privatising socially-owned enterprises in the second half of 2008, albeit at a modest pace and equally modest volumes, processing marginal assets, therefore without a clear impact on overall economic activity. Since April 2009, there has been a slight acceleration of the privatisation process. The government's privatisation agenda concerning public-owned enterprises continued to accumulate delays. *Overall*, delays in privatisation contributed to a rigid business structure.

Market entry and exit

By the end of 2008 there were 67,950 active companies, 83% of them operating in the services sector. Improvements have been made in the 'one-stop shop' facilities for business registration, but fixed costs for doing business, such as work and construction permits, remain high. *Overall*, weak administration and rule of law, unreliable energy supply, limited access to finance, corruption and poorly defined property rights, the tackling of which is mentioned as a key priority in the 2008 European Partnership, hinder market entry and exit.

Legal system

The need to strengthen the legal framework is a key priority in the 2008 European partnership. Kosovo's legal system is a complex mix of different legal acts produced by the Yugoslav administration before 1999, and successively by UNMIK and the Kosovan Government since then, which leads to uncertainty. As a general rule, legislation after 1999 has been supportive of a free-market economy. The legal system continued to exhibit poor accessibility and efficiency, and some areas are not covered by relevant courts. As a consequence, informal methods of contract enforcement continue to be widespread. The large informal sector is fuelled by weaknesses in tax and expenditure policies, as well as in law enforcement, including the fight against corruption and organised crime. The informal sector remains an important challenge, as it reduces the tax base and the efficiency of economic policies. *Overall*, the weak rule of law and uncertainty over property rights remained major impediments to sustainable economic development. The difficult and costly legal enforcement

⁸ At the time the 2009 budget was prepared, the working assumption based on the Ahtisaari package was to hold general elections in 2009.

⁹ The rule limited the growth of primary current spending to 0.5% in real terms.

of contracts hindered access to finance and continued to hamper seriously the business environment.

Financial sector development

The financial sector in Kosovo continued its expansion, albeit at a sharply reduced pace compared to previous years. Eight commercial banks, ten insurance companies and two pension funds are operating in Kosovo so far. As a response to the international financial crisis, the Central Bank of Kosovo established a Crisis Preparedness Committee (CPC) and signed a Memorandum of Understanding on safeguarding financial stability with the Ministry of Economy and Finance. The newly created procedures have yet to be tested. Reporting requirements for banks have been tightened and banks have been requested to gradually reduce their net exposure to their parent banks to the level prescribed by the CBK's rule (20% of Tier I capital). There has been increased exchange of information with foreign central banks and other supervisory authorities, as well as with the boards of key players in the banking sector. The quality of the loan portfolio in Kosovo's banking sector remained solid, with the average share of non-performing loans in 2008 reaching only 3.3% from 4.4% in 2007. *Overall*, prudential indicators of profitability and liquidity remained favourable in 2008 and no specific crisis-related interventions have been needed so far. However, there are also indications on poor access to finance and high perceived risk of doing business.

The banking sector continues to dominate the financial sector and remains highly concentrated, with the three largest banks, foreign-owned, holding almost 90% of total assets. Profits rose by 8.7% in 2008, sharply down from growth of 68% in 2007. The degree of financial intermediation increased further, though from a still modest level. The share of banking sector assets in GDP grew from 41.4% in 2007 to 48.6% in 2008. The volume of loans increased from 25.8% of GDP in 2007 to 31.8% in 2008. In May 2009, annual credit growth was 20.4%, whereas deposit growth stood at 21.4%, and the loans to deposit rate stood at 84.5%. While there is no legally binding restriction, there is an informal agreement according to which the ratio of loans to deposits should not exceed 80%. Since February 2008, the ratio has been constantly above this level, as credit growth has become strictly bound by the rate of deposit growth. The interest rate spread between deposits and loans remained very high and showed only a slow downward trend. By end of May 2009, the spread's 12 month average for all types of loans stood at 10.1 percentage points, slightly down from 11.3 percentage points in 2007. The spread is lower for loans to households (9.2) than for loans to (non-financial) corporations (11.2). Loans distribution across sectors remained highly uneven. By the end of May 2009, agriculture continued to account for only 4% of outstanding business loans, the secondary sector (manufacturing, energy and construction) taking up close to 21%, while 75% of all business loans financed activities in the service sector. While there was no change in the sectoral structure of the loan portfolio, there was some improvement in the maturity structure. By the end of May 2009, 62% of business loans had a maturity of 2 years or more, up from 57% at the end of 2007. *Overall*, the number of loans has increased but high real interest rates remain one of the major obstacles to doing business in Kosovo. Ineffective enforcement of creditor rights and of contracts continues to maintain high costs and risks for financial institutions, as reflected in high interest spreads, and undermines the value of collateral.

3.2. The capacity to cope with competitive pressure and market forces within the Union

Existence of a functioning market economy

Since 1999, newly adopted legislation supports a free-market economy. However, there was very little progress in strengthening the overall framework for a functioning market economy. The regulatory framework is incomplete in many areas relevant for the economy, the implementation and enforcement of existing rules remain weak, and there is a lack of good governance. In addition, provisions implementing key pieces of legislation are missing, or contradictory. Private sector companies are confronted with procurement and tendering procedures that lack transparency, a stable set of administrative rules and financial controls, as well as economic impact assessments. Neither the relevant procurement agencies, nor the courts have so far been able to deal successfully with the arbitrary application of selection criteria. The stability of the energy supply was improved, however at the cost of ever higher subsidies from the budget. *Overall*, an incomplete legal framework, corruption, weak rule of law, high level of informal activities and a highly subsidised energy supply continued to impair the efficiency of market mechanisms.

Human and physical capital

Some progress took place in the education sector, in particular concerning accreditation and qualifications, and in the consolidation of the university. Despite this, the education system continued to suffer from lack of resources and unreliable or missing qualification and certification schemes. The overall enrolment rate in education has shown no significant increase in recent years. It is especially low in secondary and higher education, and drop-out levels are high. *Overall*, little progress was made towards better developing the economic potential of Kosovo's young population.

No comprehensive information on investment developments is available. Kosovo has initiated major public works to upgrade its road network, absorbing an increasing share of budgetary resources. However, poor procurement procedures and weak financial controls cast doubts on the quality and the capacity to respond to actual needs of the ongoing works, as well as the quality of the actual works. Mobile telephone penetration continues to increase and is estimated at more than 50% by mid-2009. *Overall*, the technology base and the state of physical infrastructure remain weak and the pool of qualified human capital small. As a result, Kosovo companies are too rarely competitive even in sectors where competitive potential exists.

Sectoral and enterprise structure

Regulatory authorities have been set up for all major network and commodity industries, but they remained weak. Their independence was undermined by politicisation of appointments in their boards. In several instances, the potential positive effects of market liberalisation cannot materialise due to weak corporate governance and the absence of consumer protection. Kosovo cannot yet benefit from regional energy trading with its neighbours on a level playing field due to unfinished integration into regional electricity trade agreements. Electricity supplies continue to be intermittent due to the outdated system and strains caused by an unsustainable increase in demand. Whilst power bill collection has increased slightly, some 50% of power produced is still unpaid for. Electricity demand continues to increase faster than economic growth. A new power plant will only come on stream in five years at the earliest. Further unbundling and privatisation of the generation and distribution companies is planned in the next year. The enterprise structure is unchanged, dominated by micro-enterprises. Measures have been adopted to start reducing the large informal economy, such as overhauling the tax system, and measures taken to address evasion. *Overall*, there have

been few changes in the enterprise structure, which remains dominated by micro-enterprises, and the large informal economy remains a challenge.

State influence on competitiveness

According to budget figures, subsidies and transfers increased by 32.6% in 2008 and by another 25.4% in the first half of 2009. A large share of these goes to the loss-making public electricity company KEK. Widespread electricity theft and tolerance towards unpaid power bills has undermined the viability of the power utility, and continued to trigger additional energy imports paid from the government budget. *Overall*, ongoing direct and indirect state subsidies, combined with a poor level and quality of public services, continued to hamper private-sector competitiveness.

Economic integration with the EU

The openness of the economy, measured by the value of imports plus exports in goods and services as a percentage of GDP, increased to 71.1% in 2008, up from 64.5% in 2007. EU Member States and CEFTA continued to be the two main trading partners for Kosovo, accounting for 40% of total trade each, the latter despite Serbia's blocking the exports and Bosnia and Herzegovina's refusing preferential treatment. The share of exports bound for the EU increased from 42% in 2007 to 47.8% in 2008. The EU's share of total imports remained at around 36%. *Overall*, economic integration with the EU has increased.

4. EUROPEAN STANDARDS

This section examines Kosovo's capacity to gradually approximate its legislation and policies with those of the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Process and the European Partnership priorities. It also analyses Kosovo's administrative capacity. In each sector, the Commission's assessment covers progress achieved during the reporting period, and summarises Kosovo's overall level of preparation.

4.1. Internal market

4.1.1. Free movement of goods

There has been some progress in the area of **standardisation**. The Professional Standards Council is operational. Nine technical committees (in which companies participate actively) have been established in the areas of construction, petroleum/gas, quality management systems, transport and postal services, electro-technology, metrology, healthcare, energy and wood processing.

To date, around 1200 EN- and ISO/IEC-based standards have been adopted as Kosovo standards, out of which around a quarter are harmonised European standards in the area of construction products. The Kosovo Standardisation Agency within the Ministry of Trade and Industry is responsible for standardisation. It is not a member of European or international standardisation organisations.

Progress remains very limited on **conformity assessment**. A functioning conformity assessment system is not yet in place.

Some progress has been made on **accreditation**. The Law on Accreditation was adopted in December 2008; implementing provisions have been approved. Four conformity assessment bodies (one inspection body and three testing laboratories) have been accredited in Kosovo so far. An accreditation directorate has been established within the Ministry of Trade and Industry. One technical committee for testing and calibration laboratories has been set up. A memorandum of understanding with the former Yugoslav Republic of Macedonia was signed in May.

There has been limited progress on **metrology**. Metrological activities are performed by the Department of Metrology and its Institute of Legal Metrology and Inspection, which has two offices. The one in Pristina deals with mechanical and electrical measurements. The one in Prizren covers mechanical measurements and controls of precious metal articles. A metrology council steers the overall development of metrology. However, the Kosovo Central Laboratory for Metrology has not been set up yet. The strategy for the development of metrology infrastructure for the period 2009-2013 has not been adopted.

Market surveillance has not progressed. Preparations in this area are at a very early stage and Kosovo's market surveillance system is far from European practices. The Market Inspectorate employs a staff of 12. Lack of legal infrastructure, strategic approach and capacity hamper further development in the sector.

Kosovo has adopted legislation on low voltage equipment, machinery, cableways installations, safety of toys, construction products and textiles.

There has been some progress in the area of **consumer protection**. The Law on Consumer Protection was amended in April. The seven members of the Council for Consumer Protection (including five NGO representatives, notably the two active consumer NGOs) have been appointed. However, administrative capacity remains inadequate. The Consumer Protection Office within the Ministry of Trade and Industry employs only one member of staff. There is no strategy on consumer protection.

Overall, approximation with European standards and legislation in the area of free movement of goods is limited. The administrative capacity to implement them is inadequate. Considerable efforts are still needed in this respect.

4.1.2. Movement of persons, services and right of establishment

Limited progress can be reported in the area of free **movement of persons**. Alignment with European standards remains at an early stage. The free movement of persons throughout Kosovo is not fully ensured. As regards *coordination of social security*, work has started but allocation of resources for that purpose needs to be significantly increased. No progress can be noted with regard to the freedom to provide **services**, and adoption of European standards is at a very early stage. The legal framework as regards the freedom to provide services and the **right of establishment** remains uneven. Alignment with European standards is limited. There has been no progress in the area of company law. *Overall*, there is no alignment with company law legislation.

4.1.3. Free movement of capital

There has been limited progress in the area of free **movement of capital**. Legislation on foreign exchange consists in a rule of the Central Bank defining the limits of the amount of

foreign currencies that a bank can possess as a percentage of their tier I capital. Kosovo has a very liberal regime concerning capital movements: foreign banks benefit from full national treatment and manage around 90% of the assets in the banking sector. The same rules apply to domestic and foreign companies investing in Kosovo. There are no restrictions on foreigners acquiring real estate. Kosovo uses Basel I principles on capital requirements for banks and is gradually moving towards implementing the more comprehensive Basel II guidelines.

Efforts are needed to align financial regulations with best international standards, as well as to implement and enforce them. As regards the regulation and supervision of banks, Kosovo currently uses the CAMEL model and is gradually moving to risk-based supervision. Supervisory authorities need to sign memoranda of understanding with the supervisors of foreign banks. In response to the financial crisis, the Central Bank increased the scope of its supervision on the financial sector and played a positive role in the management of risks associated to the crisis. Supervisory capacity needs to be strengthened to enforce regulation in the financial sector.

In late 2008 and early 2009, the Central Bank adopted several measures to develop the **payment system**. A direct debit scheme was set up. It incorporates operational agreements and procedures with the Kosovo Electricity Corporation and the regional water company of Pristina. Infrastructure of the electronic inter-banking clearing system was upgraded, enabling web-based application, unification of certain data fields and further automation of reporting processes.

Overall, the regime for capital movements is very liberal, but substantial efforts are necessary as regards free movement of capital to establish a legal framework compatible with EU standards.

4.1.4. Customs and taxation

There has been some progress in the area of **customs**. The Customs and Excise Code was adopted in November, its customs part is largely in line with European standards. Kosovo Customs was set up within the Ministry of the Economy and Finance in December 2008. Anti-smuggling units have started to patrol on all roads, with the exception of northern Kosovo and this has reduced smuggling. However, trains coming from Serbia into Kosovo are not subject to customs or other controls. Over 65% of Kosovo's tax revenues is collected at the border. EULEX started registering the goods entering at gates 1 and 31 in northern Kosovo, and the actual clearing is done at Mitrovicë/Mitrovica terminal. Customs information exchange between Kosovo Customs and Serbia with support of EULEX resulted in a number of criminal investigations on both sides. Revenue collected by the customs for January-September 2009 was around 380 million, i.e. 4.5% higher than revenue collected for the same period in 2008.

Kosovo Customs completed an assessment of its operational capacity in August, measuring it against EU standards. The human resources and general management, infrastructure, equipment and post-clearance controls were evaluated as effective. Further attention needs to be focused on the export of agricultural products, the enforcement of intellectual property rights and the security of the supply chain. The IT system needs to be replaced by a more flexible and integrated one. The present system does not fully support the use of the Integrated Tariff of Kosovo, in particular the registration of transit goods and the integration of tariff data for other countries. In February 2009, an intellectual property rights unit was created to implement the regulation establishing the customs procedure for action against

counterfeit goods, pirated goods and goods infringing certain intellectual property rights. The August assessment concluded to the need to improve its capacity. The Internal Inspection Sector was set up to fight corruption, which is a concern in the area of customs, in cooperation with the Kosovo Anti-Corruption Agency. Kosovo Customs is part of the task force including the Kosovo Police, the Prosecutor's Office, the Tax Administration and the Ministry of Trade and Industry. Kosovo Customs participates in a regional project on exchange of pre-arrival customs information with neighbouring countries, which facilitates trade and the enforcement of customs legislation.

The manpower and administrative capacity of Kosovo Customs to enforce customs legislation need to be strengthened further. Specific areas of attention are the fight against smuggling and counterfeiting, improving the Customs IT system and its capacity to support the use of the Integrated Tariff of Kosovo. Controls and supervision need to be extended to northern Kosovo.

Overall, the legal provisions for customs are compatible with European standards. However, the administrative capacity needs to be substantially reinforced, and the fight against corruption needs to be intensified.

There has been some progress in the area of **taxation**. In January, a tax reform entered into force and new tax rates are now applied. Personal income tax rates were lowered from 0%, 5%, 10% and 20% respectively to 0%, 4%, 8% and 10%. Corporate income tax decreased from 20% to 10%. VAT was raised from 15% to 16%, and excise duties on tobacco rose from € 17 to € 21 per kilo. The Law on Tax Administration and Procedures was adopted in February. It introduces several new elements in the tax system, such as the possibility for the Tax Administration of Kosovo to issue tax numbers and establish electronic cash registers. It also grants the tax administration additional authority to seize goods that cannot be accounted for through registered transactions and corresponding payments from firms subject to corporate income tax. The fiscal identification numbers are attributed, and any business established after August must possess one.

No legislative progress can be reported in the VAT area. The VAT registration threshold remains high (€ 50,000 turnover) which makes many companies not liable to VAT. In August, a general assessment of the tax administration's own operational capacity, measuring it against EU blueprints on taxation, concluded that it needs a new organisational structure to avoid the risk of duplication and that its investigation capacity concerning tax fraud and avoidance needs to be strengthened. Other findings relate to the need to develop an anti-corruption strategy and to increase information services to tax payers. The Standard Integrated Government Tax Administration System is being upgraded until a new IT system is operational.

Tax revenue was lower in the first seven months of 2009 compared to the same period in 2008. This is mainly due to the reduction in the corporate income tax rate and because, unlike in 2008, no surcharge was levied on PTK profits. The Tax Administration of Kosovo signed memoranda of understanding with Kosovo Customs, the Police and the Ministry of Labour and Social Welfare to improve tax collection. However, the IT infrastructure remains ineffective, and lacks the capacity to enforce tax payment and to reduce the informal economy.

Overall, there has been some legislative progress in the area of taxation. However, legislation needs to be accompanied by detailed administrative instructions and further efforts to ensure

effective implementation. Kosovo needs to enhance the efforts to enforce tax payments and to reduce the informal economy.

4.1.5. Competition

There has been some progress in the area of **competition**. The Independent Kosovo Competition Commission was established in November 2008 and the Assembly appointed its five members. The Commission is an independent body that reports directly to the Assembly. It has been operational since March and has performed a review of existing competition regulations, concluding that a new law is required to further align competition practices in Kosovo with European standards. However, the Commission is hampered by a lack of resources, especially with regard to attracting qualified staff.

As regards **antitrust** policy, the Commission signed a memorandum of understanding with the chamber of commerce, the ministries of trade and industry and finance, and the customs office. The Commission has investigated several suspected breaches of competition rules. It intervened to overturn an agreement between bakeries over the price of bread. The Commission has become full member of the International Competition Network. There has been no progress concerning state aid, and there is no law on **state aid**.

Despite some progress in implementing anti-trust policy, overall implementation of competition policy in Kosovo is at an early stage. The administrative capacity needs to be strengthened. There is a need for awareness-raising to familiarise the private sector with competition rules. Alignment on state aids needs to start.

4.1.6. Public procurement

The situation concerning procurement has worsened compared to the previous year, despite some improvements in the legal framework. The implementing legislation for the Law on **Public Procurement** was completed in January. However, the law on public procurement is not aligned with European procurement standards. A number of provisions of the EC Directives remain unimplemented, not least the more flexible regime in the utilities sector. The implementation of the law in practice gives rise to serious concerns.

The main focus of the Public Procurement Regulatory Commission is monitoring, supervision and legal interpretation. However, monitoring is done mainly on cases where contracts have already been signed and it does not encompass their implementation phase. So far, hardly any guidance was provided to contracting authorities. The Commission needs to strengthen its guidance and advisory support role. To this end, it established a help desk function in September.

As of May 2009, the Procurement Review Body reviewed 290 complaints. However, there is no systematic publication of its decisions and these often lack legal arguments. The Public Procurement Agency is the executing and main contracting authority, but its role as central purchasing body is weakened by a discontinuation of the use of central procurement, including framework agreements. Administrative capacity is weakened by high turnover among procurement officers at both central and local level. Procurement officers in Kosovo remain vulnerable to interference and intimidation. This has a negative impact on the quality of public procurement.

The training and certification of procurement officers is insufficient and was delayed in 2009. The law requires every procurement officer to undergo at least ten days of mandatory training every year. The existing certification system only requires a one-off training course, which is not in accordance with the current law.

The value of contracts awarded through public procurement has increased, representing almost 22% of Kosovo's GDP. However, the high proportion of tenders cancelled on grounds of non-compliance with administrative requirements and the choice of procurement methods give rise to concerns. Open procedures accounted for 77% of the total value of signed contracts, and negotiated procedures for a further 20%, with other procedures being used very marginally. The use of single source tendering rose from €50 to €164 million.

The government has adopted a comprehensive legal anti-corruption package. However, there has been a limited number of investigations on cases of alleged corruption, and the results of those actually performed show the need for more sophisticated investigation tools and methods. A stronger emphasis needs to be placed on monitoring the implementation of procurement contracts. Administrative capacity and coordination mechanisms of the main stakeholders in the public procurement system still need further strengthening, in particular to reduce the scope for corruption.

Overall, despite some results achieved in terms of adopting legislation and establishing the Procurement Review Body, there are a number of worrying developments as regards the implementation of public procurement in Kosovo.

4.1.7. Intellectual property law

There has been limited progress in the area of **intellectual property rights**.

Some progress can be reported concerning administrative capacity in the area of **industrial property rights**. The Central Intellectual Property Rights Unit was created as part of Kosovo Customs in February. This unit is tasked with ensuring coordination between customs authorities, the market inspectorate, police and prosecution offices to implement the 2008 regulation establishing customs procedures for action against counterfeit goods, pirated goods and goods infringing intellectual property rights. The Industrial Property Office is an independent institution responsible for the implementation of the laws on patents, trademarks and industrial designs. The Office has received 18,000 applications since September 2008, mostly on trademarks.

There has been no progress concerning **copyrights and related rights**. The Office for Intellectual Property has not been set up. Legislation implementing the Law on Copyright and Related Rights has not been adopted yet. The capacity of the coordinating office, namely the Office for European Integration of the Ministry of Culture, Youth and Sport, is very limited.

Enforcement of intellectual property rights remains very weak. High levels of counterfeiting and piracy persist. The administrative capacity to implement intellectual and industrial property rights remains insufficient and implementing provisions are still needed. The responsibilities of the various bodies dealing with enforcement, as well as the division of responsibilities between them, are not clearly defined. There has been no progress as regards copyright and related rights. The intellectual property rights strategy 2008-2013 has not been adopted. The current draft includes mainly industrial property elements, with very little reference to copyright.

Overall, key elements of industrial property rights legislation are in place and some progress has been achieved as regards administrative capacity. However, significant efforts are still needed in this respect. Kosovo's preparations in the field of intellectual property rights remain at an early stage. Legal provisions for copyrights and related rights are not yet in force and implementing capacity remains limited. An overarching strategy in this area is still lacking.

4.1.8. *Employment and social policies*

In Kosovo, there is no *labour law* and no specialised labour courts. Legislation in the area of *health and safety at work* is inadequate. The capacity of the Labour Inspectorate to implement the Law on Occupational Safety, Health and the Working Environment is limited. The Inspectorate maintains no databases on health checks on employees or on the number of employees in the private sector. There are no statistics on the number of fines issued by the Inspectorate; fines are often not paid. Lack of technical equipment hampers the Inspectorate's work.

There has been minimal progress in the area of *social dialogue*. 35 sectoral trade unions and five trade union associations are registered in Kosovo. The Tripartite Advisory Council has been renamed the Socio-Economic Council and met in July. The role of social partners in decision making remains limited. The collective agreement signed in 2004 on the minimum wage is not implemented. The trade union law was adopted in August; there is no law on strike action. Health workers, judicial workers and employees of the Kosovo Energy Company went on strike during the reporting period. A general strike organised by the Union of Independent Trade Unions of Kosovo also took place.

In the area of *social inclusion*, Kosovo adopted an action plan on disabled people in April. Home care services were provided for persons affected by mental and psychiatric disorders by the Ministry of Health and the Ministry of Labour and Social Welfare. Nine community mental health centres and seven residential housing units were set up under the authority of the Ministry of Health. Kosovo has started in September a promotion campaign for the *inclusion* of persons with disabilities. However, rehabilitation of people with physical disabilities continues to be managed by NGOs only. There is a lack of rehabilitation facilities. The inaccessibility of buildings and public services for people with disabilities is an issue of concern.

In the area of *anti-discrimination*, the adoption of the strategy and action plan on human rights 2009-2011 reinforced the legal framework (*See also section 2.2 — Human rights and the protection of minorities*). However, the government has not taken concerted action to promote respect for the LGBT community.

As regards *social protection*, the social assistance scheme is currently under review by the Ministry of Labour and Social Welfare and the Ministry of Economy and Finance. Some 325,000 people (almost 15% of Kosovo estimated population) receive social or pension benefits, the impact of which on poverty reduction is poorly monitored. Lack of reliable statistical data on employment prevents effective action to fight fraud. Legislation in the area of social services and institutional care requires the adoption of bylaws to enforce the decentralisation of social services to municipalities. Kosovo has neither a law on health insurance nor a health insurance fund.

The sustainable **employment** development programme has been approved by local and international partners in July. It envisages direct budget support for the next three years

against an agreed set of policy milestones, including the macroeconomic environment, the investment climate, labour market policies, training and social protection policies. An inter-ministerial committee on employment chaired by the deputy prime minister has been set up to ensure coordination among relevant agencies. The Law on Professional Training, Retraining and Employment of People with Disabilities was adopted in December 2008.

However, the authorities are yet to adopt an employment strategy. Registered unemployment estimates account for 43% of the economically active population. Over 338,000 persons were registered as unemployed at the end of June 2009. Over 90% of all registered job seekers have been on the unemployment register for more than 12 months.

Disabled people remain among the most disadvantaged groups, along with Roma, Ashkali and Egyptians. Female employment remains very low (55%), and youth unemployment particularly high. The implementation of the action plan on youth employment is hampered by the lack of inter-ministerial coordination. The administrative capacity of the Ministry of Labour and Social Welfare remains poor.

In the area of **public health policy**, the Law on Health was amended in December decentralising some medical services. However, the ministry is yet to finalise the health sector strategy 2009-2014. Mental health needs strengthening with a special focus on children and young people. Maternal and prenatal mortality rates remain high compared to the rest of the region, but are slightly declining. The infant mortality rate is considered to be the highest in Europe. Chronic malnutrition is a concern. To date, 563 private health facilities have been licensed. Health infrastructure, including medical equipment, drugs supply and hospital capacities, remains poor. Hospitals and primary care facilities remain outdated. Overall, the health sector remains poor and requires urgent and increased attention by the authorities.

Overall, limited progress can be reported in the employment and public health sector. The absence of an adequate legislative framework and the poor administrative capacity presents serious obstacles to the development of effective employment policies. The administrative and institutional capacity needs strengthening in the public health sector.

4.1.9. Education and research

Education is a priority sector in the medium-term expenditure framework. Essential text books for primary school pupils are distributed free of charge. 45 new schools have been built during the reporting period. Schools will be operating in a maximum of two shifts from September. The Council for Teacher Licensing has been established. The teachers' wages fund was increased in 2009 by an additional €4.5 million. Kosovo consolidated its participation in the EU Tempus and Erasmus Mundus programmes. Following the establishment of a Tempus office at the Serb-speaking University in northern Mitrovicë/Mitrovica, that university was able to apply for a Tempus grant. Kosovo's Council for Curricula is operational.

The Kosovo Accreditation Agency and its board are operational. The accreditation process for public and private higher education providers was completed in May with the support of European experts. It confirmed the institutional accreditation of the University of Pristina and some private colleges. The former elected its new rector in July. University of Mitrovicë/Mitrovica elected its rector for a second term in May. The Higher Education Council was set up. The Law on Higher Education is being reviewed with the Commission and Council of Europe support. The national qualifications authority is being established to

oversee national qualifications alongside the Accreditation Agency and other relevant partners. It will, in particular, have responsibility for vocational qualifications.

The Vocational and Educational Training (VET) school reform started, including the revision of curricula and the establishment of centres of competences. Some progress can be reported in inter-ministerial cooperation between the Ministry of Education, Science and Technology, the Ministry of Trade and Industry and the Ministry of Labour and Social Welfare. A more labour-oriented approach to VET schooling is noted, cooperation between VET schools and the private sector has strengthened.

However, the legislation on accreditation requires amendments. The respective roles of the Accreditation Agency and the Ministry of Education, Science and Technology need to be adapted to ensure the independence of the higher education providers' accreditation. Criticism has been expressed publicly against the Ministry because of the alleged lack of transparency in the accreditation process of higher education providers. The lack of accreditation of VET providers undermines confidence in the VET certification scheme.

Kosovo's education system continues to be affected by resource constraints, the lack of adequate facilities (including the basic sanitary services and non-access to drinkable water), poor quality of teaching and low enrolment (lower than the average in the region). The implementation of the Law on Education is hampered at local level by the lack of adequate financial and administrative capacities in the municipal education directorates. Drop-out rates higher than in the region and teacher absenteeism remain an issue. Participation in non compulsory early childhood development and higher education and training is among the lowest in Europe. A quality of teaching monitoring mechanism is still lacking.

The Ministry of Education, Science and Technology is yet to develop curricula for Roma, Ashkali, Egyptian and Gorani communities. The ministry has set aside minimal funds for capital investment projects benefiting the Serb community.

Research is now a priority sector. In April, the Ministry appointed a coordinator for the 7th Framework Programme. The Council for Science developed an action plan for 2009, but its implementation is hampered by resource constraints. Research and development capacities within the University of Pristina have been strengthened.

Overall, progress can be reported in the education and research. However, the pace of institutional and legal reforms has to be stepped up, better coordinated, and translated into practice. Central and local capacities to teach and manage education need to be significantly enhanced. Significant efforts are needed to increase participation in education. A system to monitor the quality of education needs to be set up. Additional resources continue to be required for research purposes.

4.1.10. WTO issues

Kosovo is not a member of the WTO and has not undertaken any formal steps to join the WTO.

4.2. Sectoral Policies

4.2.1. Industry and SMEs

Limited progress has been made in the area of **industry and SMEs**. In April, the Assembly adopted the Law on Economic Zones, which aims to stimulate private sector development with a particular emphasis on SMEs. It governs the establishment, operation and supervision of economic zones.

As regards the business environment, one-stop-shop and on-line registration and licensing facilities provided by the Business Registration Agency are not yet fully operational. 25 companies, including four international ones, have signed up for premises in the Drenas business park. Works on the infrastructure of the park are almost completed.

In accordance with the European Charter for Small Enterprises, Kosovo started implementing the entrepreneurship learning strategy. Elements already under implementation involve teacher training and curriculum reform. More needs to be done to create structured cooperation and engagement of local businesses with schools.

There is no strategic framework for **SME** development in Kosovo to guide the activities of the Ministry of Trade and Industry's SME Support Agency. The administrative capacity of the agency remains limited. Online applications are not fully operational. The Consultative Council on SMEs, representing governmental and non-governmental institutions, has started functioning again, after a suspension in 2008.

The Kosovo Business Registration Agency, officially opened in 2002, continued to register businesses. The business register includes 93,000 companies; however, only 10% of these are active. Fees to start and close a business are the lowest in the region (€5-20). Information on registered companies becomes automatically available online. There is no law on e-signature. This impedes progress in electronic registration of companies.

Overall, the institutional and legal framework for SMEs and industry policy needs to be further developed. Currently, Kosovo relies largely on ad hoc measures and pilot projects.

4.2.2. Agriculture and fisheries

The Law on **Agriculture and Rural Development** was adopted in July. It provides a framework for agricultural and rural development practices in Kosovo and establishes the legal basis for updating the agricultural and rural development plan for the period 2009–2013 and the accompanying action plan. The Ministry of Agriculture, Forestry and Rural Development has stepped up its reform efforts in areas such as consolidating and rehabilitating agricultural land, improving natural resources management in rural areas, increasing competitiveness and farm diversification, and enhancing food quality. These efforts are supported by a 40% increase in government spending in the agricultural sector in 2009 compared to 2008. A grant system is also planned, mainly to support structural reform measures rather than offering direct payments for production.

The Law on Organic Farming needs to be amended in accordance with the changes made in EU Regulations on organic farming. There is no certification body or inspectorate for organic farming. Implementing legislation pursuant to the Law on Wine has not been adopted. This has led to delays in reform in important areas such as quality control and labelling requirements.

The Law on Forestry needs revision in order to strengthen protective measures against damage and illegal logging and the violation of logging permits. Responsibilities for forestry management will be transferred to the municipal level as foreseen in Kosovo's decentralisation plans. The main challenge in preserving Kosovo's forests, which cover 42% of its surface area, is the limited capacity of the authorities to implement the law. Better coordination between the relevant institutions is needed.

Kosovo's agriculture continues to suffer from fragmented land tenure, lax control of the use of arable land for construction, non-transparent valuation and pricing of agricultural land (for both sale and lease), difficulties for farmers to access credit, and an outdated and inadequate land registration system.

In March, the Assembly adopted the Law on Food providing for the establishment of the Kosovo Veterinary and Food Agency. The agency is operating under the authority of the Prime Minister's Office and has the task of coordinating activities in the area of **food safety**. The law establishes a clearer separation of responsibilities between the different services in the agricultural sector. It transfers responsibilities from the municipal to the central level.

In the **veterinary and phytosanitary** area, the new Food Law provides a basis for adopting implementing legislation. Very limited progress can be reported in this respect. Plans to evaluate and upgrade agri-food establishments remain at a preparatory stage. Three new slaughterhouses were licensed during the reporting period. There are no facilities for processing animal by-products in Kosovo. Although the necessary legislative framework is in place, Kosovo's animal identification, registration and movement control system is not operational.

In April, an administrative instruction was adopted on the designation of **fishery** regions in Kosovo. It allows sport/recreational fishing and economic fishery. Most of the European standards as regards fisheries do not apply for Kosovo, which has no deep-sea fishing.

Overall, the agriculture, veterinary and phytosanitary legislative framework has been developed. The lack of administrative capacity remains a concern, leading to delays in reforming the agricultural sector. There has been limited progress as regards alignment with European standards.

4.2.3. *Environment*

There has been some progress in the area of **horizontal legislation**. The Law on Environmental Impact Assessment and the Law on Strategic Impact Assessment were adopted in March, but both need to be revised to be brought in conformity with European standards. A limited number of projects envisaged in the environmental action plan have been implemented.

The Ministry of the Environment and Spatial Planning has procured equipment for mobile **air quality** monitoring control stations. However, there is still no air quality strategy and no clear division of responsibilities as regards management of the air quality monitoring network. No progress can be reported in the **waste management** sector. Under the Community Energy Treaty, Kosovo needs to implement the Directive on Large Combustion Plants, but has made no effort to transpose its provisions. Bill collection rates by water and waste companies remain low.

There has been limited progress in the area of **water quality**. The Law on Publicly Owned Enterprises defines responsibilities for the operation and maintenance of publicly owned enterprises and assets in the water sector. However, there are no water treatment plants. Only 70% of the population are connected to drinking water networks and only a third is connected to sewage systems. The establishment of river basin authorities, envisaged by the Water Law, has not progressed. Their structure is still not defined and they have not been provided with financial or human resources. Their functions are carried out by the Ministry's River Basin Coordination Unit. The issue of ownership of assets remains unclear. Responsibilities for the management of dams are not clearly allocated. The safety of large infrastructures, such as dams, dykes and water intakes, requires appropriate management and monitoring.

There has been no progress with the adoption of European standards in the area of **nature protection**. Transposition of the Birds and Habitat Directives has been held back by delays in adopting the Nature Protection Law.

Some progress can be noted in the area of **industrial pollution control**, with the adoption in March of the Law on Integrated Pollution Prevention and Control. There is no progress as regards **chemicals** or **genetically modified organisms**. In the area of **noise** pollution, some administrative instructions to implement the Law on Protection against Noise have been adopted. Some efforts have been made in raising public awareness of environmental issues. This needs to be reinforced. Cooperation between environmental NGOs and the Ministry needs to be strengthened.

Kosovo has made efforts to improve coordination between bodies, in particular as regards the position of Kosovo's Environmental Protection Agency. However, cooperation between this Agency and the Hydro-Meteorological Institute needs to be improved. The **administrative** structures responsible for the environment continue to suffer from a lack of resources: the budget of the Ministry is the lowest of any ministry in Kosovo. Staff shortages make it difficult for these bodies to carry out their responsibilities. While some of their duties have been transferred to the municipal level, municipalities often lack environmental officers or inspectors.

Overall, Kosovo is at an early stage in alignment with European environmental standards. There is some progress to report in the environmental field, particularly as regards the adoption of legislation. Further efforts are needed to establish an effective administrative and institutional infrastructure in this field. The capacity of the Ministry of the Environment and Spatial Planning and related institutions remains limited.

4.2.4. *Transport policy*

There has been some progress in the area of **trans-European transport networks**. Kosovo continued to participate actively in the implementation of the 2004 memorandum of understanding on the development of the South East Europe Core Regional Transport Network, and in the South East Europe Transport Observatory (SEETO) particularly by updating and implementing the Multi-annual Plan 2009-2013. The Law on Expropriation of Immovable Property, adopted in April, provides the legal basis for the Ministry of Transport, Post and Telecommunications to carry out land expropriation activities along the newly financed transport infrastructure projects.

In the area of **road transport**, there has been some progress in building the capacity of the Transport Planning Unit within the Ministry. However, the Ministry is too heavily involved in

the daily aspects of road management instead of focusing on developing strategies and policy. The reorganisation of the Department of Road Infrastructure needs to be addressed in order to ensure a clear distinction between maintenance and supervision and road network development. The capacity of the Department of Road Infrastructure within the Ministry is limited. Only five municipalities have road departments.

The Road Safety Council (chaired by the Minister of Transport and Telecommunications) was established in October 2008 and its Secretariat became operational in January. An administrative instruction on the technical inspection of vehicles was issued in December as part of implementing the Law on Road Safety. A multi-annual action plan for road safety is still pending. The capacity of the Transport Inspectorate needs to be strengthened.

Very limited progress can be reported in the **rail transport** sector. The Law on Kosovo Railways provides the legal basis for establishing a railway regulatory authority independent from the Ministry. The agency, which is an essential institution as regards third party access to railway infrastructure, has still not been established. The Law on Kosovo Railways envisages the separation of infrastructure management and train operations. This has not been achieved. Compensation offered to railways for the provision of public passenger services is granted, but does not cover costs. Rail transport is not a government priority. Limited resources have been allocated to this sector. The condition of Kosovo's railway infrastructure and rolling stock and the level of railway services remain poor. By contrast, Kosovo's Multi-Modal Transport Strategy identifies investment needs over € 500 million for Kosovo's railway infrastructure, and a further €230 million in rolling stock, for the next 20 years.

There is nothing to report on **maritime transport** and **inland waterways**. The **multi-modal** strategy and action plan has not been adopted yet. Insufficient progress can be noted in the area of **air transport**. The Civil Aviation Authority took over from the previous aviation regulator in January 2009. Its board members were appointed only in July and the board is not yet operational. Pristina International Airport was issued with the Standard Aerodrome Certification of the Icelandic Civil Aviation Authority in December 2008. The government has hired a transaction adviser to prepare the award of Pristina Airport's concession.

A substantial amount of legislation under the European Common Aviation Area (ECAA) Agreement had already been transposed. However, the 2009 Regulation on Charter Flight Authorisation, the government decision on the categorisation of the airport, and the slot allocation practice are incompatible with European standards and with Kosovo's obligations under the ECAA agreement. This risks delaying the successful completion of the first transitional phase of the ECAA. Licences to fly to and from Pristina are granted in a non-transparent way and with unjustifiable delays. In the area of air traffic management, Kosovo needs to ensure that it licences air traffic controllers according to the Community Single Sky rules and procedures.

Overall, there has been some progress in the field of road transport. However, there have been some worrying developments in the area of aviation. Transport infrastructure remains poor and underdeveloped in Kosovo. Capacities in this area need to be strengthened, as well as the legal framework for public-private partnerships.

4.2.5. *Energy*

With regard to **security of energy supply**, there is still no **oil stock** strategy. In July (later than foreseen originally) the government decided to offer to investors a package of the New

Kosovo power plant and a new mine. The plant needs to respect European standards for new generation projects. 2 of the 4 shortlisted prospective investors have ceased their interest. The remaining operational units of Kosovo A will need to be decommissioned by 2017, to comply with the Large Combustion Plant Directive. With existing lignite sources running out, the delays in developing the New Kosovo power plant project and in refurbishing mining machinery at the existing mine could lead to an increasing 'lignite gap' in the coming two years, forcing Kosovo to rely on expensive power imports.

Results have been mixed with respect to the **internal energy market** and implementation of the Energy Community Treaty. The Law on Central Heating, adopted in November 2008, sets conditions for developing a sustainable and competitive market for district heating, based on free market principles.

The Energy Community Treaty requirements to unbundle accounts between mining, power generation, network distribution and supply and to prepare for future privatisation of the assets of the Kosovo Electricity Corporation have been met. In July the transaction advisor for privatising the corporation's distribution and supply components was selected, but the contract has not been signed. Kosovo expects actual privatisation by mid-2010. In November 2008, the Energy Regulatory Office adopted the authorisation procedure for new generating capacities as required by the Treaty. Further progress will be necessary to implement its legal. The institutional and legislative capacity of Ministry and Regulator continue to be weak. Attracting and maintaining qualified staff remains a problem.

The government adopted the energy strategy 2009-2018 in the summer. It needs to be formally adopted by the Assembly. Its main pillars concern sector financing, the new Kosovo power plant and energy supply by the Kosovo Energy Corporation. The strategy also covers good governance, social and environmental safeguards, energy efficiency/renewable energy and natural gas.

Billing and collection has improved in the past 12 months, but is still poor. Non-payment for electricity represents a major challenge for the company. Technical and financial losses continue to be high: of the energy that the Corporation can sell, over 20% was stolen and commercial losses constituted a further 20%. Only some 60% of the energy available for sale is paid for. The Corporation lost some €90 million last year. Vigorous and increased efforts are needed to increase electricity billing and collection rates. The police and the judiciary have an important role to play. As a consequence of endemic bill non-payment, power consumption continues to increase at an unsustainable rate (some 8% in 2008), far higher than the Corporation can keep up with.

The Regulator approved new electricity transmission and retail tariffs in April. They are on average 2.5% higher than in 2008, according to an annual increase driven by the tariff methodology of the Energy Regulatory Office, which gradually introduces cost-reflective tariffs. Low income customers benefit from a lower tariff. Kosovo's electricity transmission system operator (KOSTT) continues to encounter difficulties to participate as an equal partner in the regional commercial mechanisms: the inter-transmission compensation mechanism and the capacity allocation mechanisms. Serbia's operator (rather than KOSTT) is compensated for electricity transit through the Kosovo transmission grid and it continues to allocate the interconnection transmission capacities of KOSTT. Losses incurred as a result are passed on to consumers.

Kosovo's **energy efficiency** plan, adopted in February 2009, sets ambitious targets for increasing efficiency by 3% in 2011 and 9% by 2016 compared to 2008 consumption levels for households, services, transport, industry and agriculture. It will require additional legal and administrative measures to meet these targets, particularly as regards the household sector, where 34% of all energy is consumed. As regards **renewable energy**, the Regulator received seven applications to build wind turbines. The government identified 16 sites that could qualify for new hydro energy generation capacity forecast to generate up to 60 megawatts. The Regulator approved competitive feed-in tariffs for power generated from renewable sources, with a view to attracting investments in this sector.

There is minimal progress in the area of **nuclear safety** and **radiation protection**. Initial assessments are being carried to implement the rules on management and monitoring of sealed radioactive sources and medical and industrial radioactive waste. There is no legal framework in this area and no nuclear safety authority. No progress has been made in preventing and combating illicit trafficking of nuclear and other radioactive materials.

Overall, there has been limited progress in the area of energy, although legal alignment suffered delays. However, there are major problems to be addressed, which include improving the financial viability of the power utility (by reducing commercial and non-technical losses), managing demand, upgrading the infrastructure and resolving Kosovo's impending lignite shortfall.

4.2.6. *Information society and media*

There has been some progress in the area of **electronic communications**. The Telecommunications Regulatory Agency has obtained spectrum-monitoring equipment enabling it to identify illegal activity in northern Kosovo and in the areas bordering neighbouring countries. Mobile telephony market penetration is at 60%; internet penetration is 5.4%. A third fixed telephony license was issued in January 2009 but has not yet become operational. Two mobile virtual network operators have been licensed; one is already active in the market. The implementation of the sector policy adopted in 2007 is suffering delays.

Also in September, the assembly approved the new board of the Telecommunications Regulatory Agency, 9 months after the previous board's mandate expired. As the Agency has legislative powers, the new board needs to move swiftly with the adoption of implementing legislation crucial for the proper functioning of the market and ensure its enforcement. Capacity at both the Ministry of Transport and Communications and the Regulator is too limited for the effective performance of their tasks in this area. The operational, political and financial independence of the Agency needs to be strengthened. Kosovo does not possess an international dialling code and top level internet domain name. This also delays implementing some competitive safeguards, such as number portability.

There has been limited progress in the area of **information society services**. The 2005 Law on Information Society Services transposes most provisions of the Directives on e-Commerce, e-Signatures, and Data Protection and e-Privacy, but implementation has been limited. A law on cybercrime has not yet been adopted. *Overall*, information society services need to be further developed. The relevant strategies and action plans are yet to be fully implemented.

There has been some progress in the field of **audiovisual policy and media**. The laws that cover the media industry — the Law on the Independent Media Commission and the Law on the Public Broadcaster — are up for amendment. Re-licensing of broadcasters has begun: at

the end of August, a first batch of 12 long-term licenses were approved for existing broadcasters. The Independent Media Commission is now assessing applications for new frequencies. Cable operators in the north are not licensed by the Commission.

The Commission's independence, in particular as regards its staff and resources, needs to be guaranteed in the context of possible legislative amendments. The appointment of the Commission's council member by the Assembly and the RTK board is yet to be completed.

In May, the regulation for broadcasters regarding the protection of children and minors from harmful programme content entered into force, but there are no mechanisms to implement and enforce it. No progress can be reported on the switchover from analogue to digital broadcasting. Kosovo is not a member of the International Telecommunication Union and has only one frequency allotment. This does not provide enough space for digital frequencies to ensure an adequate terrestrial television signal after 2015.

The sustainability of financing of the public broadcast is not ensured. The contract by which the licence fee was collected via energy bills will expire in November. The RTK law envisages annual tenders to purchase audiovisual works from independent producers, which should account for 20% of the programmes produced. This has not been fully implemented. Legal inconsistencies between the Law on Defamation and Insults and the Criminal Code have still not been resolved. According to European standards defamation should not be a criminal offence. Kosovo does not apply the penal provisions on defamation, but since they remain on the statute book, legal uncertainty persists.

After a two year absence, the Minority Media Fund has started to function again in January. 14 media have received grants this year. There are 110 licensed broadcasters; 41 represent minority media (32 Serbian, 3 Turkish, 3 Bosnian, 2 Gorani and 1 Roma). There is no independent minority channel with Kosovo-wide coverage. An IMC Regulation on Audiovisual Communication was adopted at the end of August. This will have a particular impact on RTK by imposing limits on advertising thresholds.

Positive developments can be reported as regards cooperation between the Association of Independent Broadcast Media of Kosovo and minority media from the north. The Law on Access to Information is not fully implemented, which hampers the work of journalists. The Press Council is a self-regulatory body which depends on donations for its finances. Its enforcement capacity is weak.

Overall, whilst there has been some progress in the area of the information society and media. However, more needs to be done. The implementation of the RTK law and the appointment of new RTK board remain the most serious issues of concern, as is the need to strengthen the administrative capacity, financial and political independence of both regulatory authorities, as well as the human capacity of the Independent Media Commission

4.2.7. Financial control

There has been limited progress on **Public Internal Financial Control (PIFC)**. Efforts have focused mainly on the development of internal audit capacities and less on financial management and control systems. The Central Harmonisation Unit for these systems is operational since September. The Law on Internal Audit was adopted in September. An audit manual has been developed and training of auditors has continued. Internal audit concentrates

mainly on compliance testing but is not yet seen as a managerial tool. The government approved the development strategy for internal audit 2010-2012.

As regards **external audit**, the Office of the Auditor General prepared several internal documents in the early months of 2009, including an external audit manual, a new performance audit guideline, a quality framework, an amended code of conduct and a standard reporting format. Key international standards have been translated (such as the INTOSAI Guidance on Internal Control and a Code of Ethics). The first two annual performance reports of the Auditor General were sent to the Assembly in 2008 and 2009 respectively. An adequate follow-up system on external audit reports and recommendations is lacking. The financial independence of the office is not sufficient.

Overall, there has been modest progress in this area. Developments in public internal financial control and external audit are at an early stage. Continued efforts are needed in particular to improve the financial management and control environment.

4.2.8. *Statistics*

There has been some progress in the area of **statistics**. In August, the Statistical Office of Kosovo adopted a strategic development plan 2009-2013. The main priority areas include statistical infrastructure, survey data quality, IT development and training of staff. The main focus is still on social and demographic statistics rather than on economic statistics. The IT system has been improved and memoranda of understandings have been signed with suppliers of data, which improved the co-ordination of the statistical system, but there is still room for improvement as regards cooperation between the different compilers of statistical data. The law on official statistics has not yet been adopted.

Kosovo's **statistical infrastructure** remains weak. The weak capacity and inadequate independence of the statistical office are a concern. Several ministries collect statistics which fall within the statistical office's remit.

There has been limited progress in the area of **classifications and registers**. Classification of institutional units and of economic transactions has improved. However, compliance with EU and international classifications is limited and the area needs further development. The Statistical Office of Kosovo has not yet introduced NACE Rev. 2 and is still using NACE Rev. 1 standards. The business register is operational but the coverage and its links and update procedures are not adequate for reliable economic statistics.

As regards **sector statistics**, there has been some progress in the area of economic, business and agriculture statistics. Pilot surveys have been conducted for producer price indexes, business statistics and social statistics. The findings were used in compiling the national accounts. However, the national accounts remain insufficient and need further development.

A pilot population and housing census was carried out in six Kosovo municipalities in October and November 2008. This demonstrated an improvement in the capacity of the Statistical Office of Kosovo to conduct a population census. However, the recommendations of the International Monitoring Operation were not fully implemented. In particular the boycott by the Kosovo Serb community was not properly analysed. The statistical office has no strategy for addressing this issue. In July, the government announced its intention to organise a full population census in 2011.

Overall, some progress can be reported in the field of sector statistics. However, the Statistical Office of Kosovo is still unable to produce sufficient statistics on economy to underpin effective policy-making. The office has insufficient administrative and coordination capacity to conduct major surveys.

4.3. Justice, freedom and security

4.3.1. Visa, border management, asylum and migration

Travel document security has improved with the introduction of the new Kosovo passports in 2008. All countries that recognise these passports issue **visas** in them. The great majority of UNMIK travel documents will expire by August 2010. The Law on Foreigners was adopted in December 2008. Related by-laws are not yet adopted. A range of secondary legislation completing legal framework in relation to issuance of ID cards, passports citizenship have been adopted.

The proliferation of travel documents is still an issue, which complicates control over migration and the fight against crime. The security and control over the issuance of documents are a concern, as well as the security of related registries and databases. Serb parallel structures in Kosovo pose a particular challenge in this regard.

Limited progress has been achieved as regards **border and boundary issues**. A revised integrated border management strategy and an action plan were adopted in April 2009 to coordinate the activities of agencies involved in border control and management. The executive board for integrated border management was set up in May 2009, comprising the integrated border management coordinator and representatives of other relevant bodies. EULEX deployment at the two crossing points (gates 1 and 31) between Kosovo and Serbia has had a positive impact. The Kosovo Police has launched a restructuring process including the relevant border departments.

However, Kosovo borders are porous and still not fully secured. The north represents a particular challenge. The lack of full customs operations in that area prevents the efficient fight against organised crime. The cooperation between bodies involved in border management is insufficient. Kosovo needs to ensure that the IT system for border control and monitoring is in line with EU standards.

Overall, Kosovo has only started to address its priorities as regards visa policy and border and boundary management. Kosovo needs to start developing a coherent visa police in line with European standards.

There has been limited progress in the area of **asylum**. Kosovo has adopted some implementing legislation on the handling of asylum seekers. In June 2009, a database on of asylum seekers was put in operation. However, a number of challenges need to be addressed. The capacity of the Department for Citizenship, Asylum and Migration as well as of the police to deal with asylum seekers and their applications remains weak. There is no appeal body established for asylum cases. A reception centre to accommodate asylum seekers is yet to be built and Kosovo also lacks holding detention centres for foreign migrants. Overall, preparations in the area of asylum are at an early stage.

In the field of **migration**, there has been partial progress. The Ministry of Internal Affairs is responsible for processing readmission requests from third countries. Countries which have

not recognised Kosovo continue to send their requests to UNMIK. The Department for Citizenship, Asylum and Migration received 2,878 requests for repatriations between October and July; 2,577 persons were repatriated to Kosovo by third states. Cooperation among the relevant bodies within the Kosovo administration with a role in this process is satisfactory. In July, Kosovo adopted a law on granting work and employment permits for foreigners as well as implementing legislation regarding the issuance of identity cards for foreigners. In September, Kosovo adopted a strategy and an action plan on migration.

However, the strategy and action plan does not sufficiently address important issues such as exit controls, checks of forged documents, etc. Although the Law on Foreigners was adopted, related secondary legislation remains to be enacted. Implementing provisions to this law have not been issued except for an administrative instruction on ID cards for foreigners, which needs to be improved. Returns remain unsustainable as the reintegration strategy for repatriated persons is not properly implemented. The Inter-ministerial Coordination Board envisaged by the strategy for reintegration of repatriated persons has met only once. There is no body supervising the implementation of Kosovo's reintegration policy. Reintegration of returned persons remains a major deficiency. Furthermore, the management of the readmission process and the process of verifying the identity of persons originating from Kosovo needs to be improved, particularly in terms of personnel, technical capacity, documentation support and statistics. There is no law on readmission.

Overall, Kosovo has started to address its priorities on migration. However, legislative framework needs to be completed and quality of adopted documents ensured. The capacity to reintegrate returnees is a major obstacle to the full implementation of policies in this area.

4.3.2. Money laundering

Tackling financial crime is a key European Partnership priority. However, Kosovo took only few steps to address this phenomenon effectively. An UNMIK regulation continues to regulate the activity of governmental and other agencies with responsibilities in this area. Banks, customs, exchange offices and other financial intermediaries are required to report cash or electronic transfers to the Financial Intelligence Centre currently managed by EULEX. This Centre acts as the national financial intelligence unit. It has started to implement a new system of reporting, which is expected to provide significant improvements. The Centre also established relations with similar institutions in Albania, the former Yugoslav Republic of Macedonia and Montenegro and with some Egmont group members.

The Law on Management of Sequestered and Confiscated Criminal Assets was adopted in July. However, the legislative framework needs to be strengthened in order to ensure that money laundering is defined as a crime, that the future Kosovo financial intelligence unit is independent from undue political and other influence, and that the relevant legal acts are line with EU standards.

Oversight of the private sector and particularly the real estate sector needs to be urgently addressed. Cooperation between the Centre and the tax authority remains insufficient. Reporting by non-banking institutions to the Centre continues to be inadequate. The capacity of judicial and law enforcement authorities to deal with money laundering has not progressed. Law enforcement and supervisory authorities have difficulties to detect, in a timely manner, violations in these sectors. The Agency for the Management of Sequestered and Confiscated Assets, the only mechanism to manage these assets, is not yet operational.

Overall, money laundering remains an issue of serious concern. Kosovo lacks adequate legislative provisions and operational structures to cope with this phenomenon.

4.3.3. *Drugs*

There has been some progress in the fight against drug trafficking. Kosovo is located on the Southern Balkans drugs trafficking route. The Kosovo Police have conducted a number of effective operations in the fight against the abuse and trafficking of drugs. The quantities of narcotics seized and the numbers of cases investigated and persons arrested and prosecuted have increased. In June Kosovo adopted a strategy and an action plan against narcotics aimed at reducing supply and demand along with a corresponding action plan. The police international cooperation unit liaised with police in countries such as Switzerland, Germany and Italy.

However, pending its restructuring, police lacks an adequate budget and an effective entity to fight illicit drugs. Kosovo also lacks sufficient number of trained police dogs for drug detection and canine unit. Central Narcotics Investigation Section of the police needs further support. Cooperation between law enforcement agencies is still very weak and the flow of information is not integrated. The proper storage of seized drugs is not adequately ensured across Kosovo.

Overall, Kosovo's fight against drug trafficking is at an early stage. Several considerable weaknesses persist such as capacity of the police to tackle drug trafficking effectively and the inadequate level of cooperation and information exchange between relevant institutions.

4.3.4. *Police*

Kosovo has made partial progress as regards policing. The basic legislative framework is in place. Kosovo Police has managed well its public order functions. The police continued in implementing its strategic plan 2008-2010. The police have also upgraded its communication infrastructure. The Ministry of Internal Affairs established municipal councils on community security to reinforce relations between police, municipal authorities and local communities. Most police officers from the Kosovo Serb community south of Ibar river, who left the service following the declaration of independence, have returned to their stations. In September, Kosovo adopted the Law on Weapons. The law is in line with relevant EU legislation and includes adequate penalty provisions. In January 2009, the Ministry of Internal Affairs adopted a series of administrative instructions on small weapons.

However, a number of violent incidents, including targeted damage of EULEX property, have occurred across Kosovo. The wide possession of weapons by the civilian population remains a serious concern. There is no strategy for the collection of such weapons. The Law on Explosives needs to be updated and relevant implementing legislation adopted. Kosovo has no Laws on Forensics and on Autopsy. Cooperation between the police and the Prosecutor's Office needs to be improved. The police still lack capacity to develop strategic planning and fully implement an intelligence-led policing system. The police have not yet drafted full job descriptions for its senior management, including its two Deputy General Directors. The chief executive officer of the police inspectorate needs to be appointed and professional and independent execution functions of the inspectorate ensured. The reorganisation of the police force has not been completed yet and requires adequate preparation.

Facilities for storing evidence are not fully protected. In April, a considerable amount of heroin was stolen from an evidence room. Police communication networks are still not fully integrated and secure. Communication channels with other law enforcement agencies are not operational yet. Not all local police stations are linked with the main information system of the police. Reports sent by local police stations via intranet are not always secure. The information system of the police needs an upgrade in order to avoid duplication of registered crimes and persons. Crime statistics are not based on standard operating procedures for statistics and records. Available data is not always used effectively in guiding targeted police work. Kosovo's efforts in linking law enforcement databases need to take account of relevant European standards, particularly as regards data protection. The Ministry of Internal Affairs needs to further its efforts in granting EULEX access to key databases in order to enable the effective conduct of investigations under the mission's executive mandate. International police cooperation is limited. EULEX needs to play an important role in facilitating this.

In January, the police created a mixed unit in northern Mitrovicë/Mitrovica, consisting of 25 police officers (Kosovo Serbs, Kosovo Albanians and Kosovo Bosnians). The unit has both a patrolling and an investigation mandate. The activities of this unit have led to a reduction of crimes in the areas covered. In northern Mitrovicë/Mitrovica, four police stations do not report directly to Pristina, which limits the effectiveness of fighting organised crime and conducting undercover operations in this area. This is, however, being addressed and with the appointment of senior Kosovo Serb police officers to the regional command structures in Mitrovicë/Mitrovica cooperation is improving. In June, most police officers from the Kosovo Serb community south of Ibar river, who had left the service following the declaration of independence, returned to their stations and work under the usual chain of command.

Overall, Kosovo has initiated processes to address priorities in this area. However, urgently number of severe deficiencies need to be addressed. The job descriptions for senior management need to be urgently finalised and appropriate staff recruited. Investigative capacities need to be enhanced and intelligence-led policing fully introduced and implemented; security of evidence addressed. EULEX needs to be granted access to all relevant databases.

4.3.5. Fighting organised crime and terrorism

There has been limited progress in tackling **organised crime**, which remains an issue of serious concern, particularly in the north of Kosovo and on the border/boundary line between Kosovo and Serbia. In July, Kosovo adopted strategy and relevant action plan on tackling organised crime. The Law on Preservation of Public Peace and Order was adopted in September. In June the Kosovo Prosecutor's Office signed a memorandum of understanding with the Italian National Anti-mafia Directorate for the exchange of information in fighting organised crime, but this still needs to be formally adopted.

However, Kosovo does not have a crime reduction strategy. Kosovo lacks adequate resources and criminal intelligence system to tackle this phenomenon. The lack of a witness protection law and programme still inhibits efforts in this area. EULEX plays a major role by investigating serious criminal offences and providing witness security and protection.

Overall, Kosovo needs to considerably step up its efforts. Kosovo remains a source and a place of transit for organised crime activities. The lack of cooperation between Pristina and Belgrade, as well as between the central Kosovo authorities and structures in the north,

seriously undermine efforts in the fight against organised crime, which is a key European Partnership priority.

Kosovo has achieved limited progress in tackling the **trafficking of human beings**. The standard operating procedures were revised in November 2008 to encompass all victims of trafficking and to consolidate the system of victim identification and protection. Their full implementation is expected to be achieved shortly.

The number of identified trafficking victims remains low. The victim advocacy and assistance division continues to operate within the Ministry of Justice, also providing assistance to victims of trafficking. The Deputy Minister of Internal Affairs is the national anti-trafficking coordinator. Kosovo continues to be a source, a destination and a transit route for trafficked persons. Most victims are internally trafficked (about 60%). Victims also originate from Moldova (20%) and Western Balkan countries (20%). Child trafficking for the purpose of forced begging is an increasing problem. Overall, Kosovo efforts in the fight against trafficking of human beings are not very advanced. Trafficking related corruption needs to be tackled. Investigation and prosecution of trafficking crimes by Kosovo authorities remain a concern.

Some progress has been made in the **fight against terrorism**. A strategy and an action plan for the fight against terrorism were adopted in June. However, Kosovo has no law against terrorism.

Overall, Kosovo is at an early stage of tackling terrorism.

4.3.6. Protection of personal data

Kosovo still needs to align its legislation with EU standards on data protection, in particular Directive 95/46/EC. A general law for the protection of personal data is yet to be adopted and an independent data protection supervisory authority remains to be set up.

Individuals in Kosovo are not informed about their rights regarding the protection of personal data. The setting up of security, intelligence and law enforcement bodies and their databases has not been accompanied with parallel personal data protection measures.

Overall, Kosovo still needs to undertake and conclude comprehensive efforts in this area. The current deficiency is a matter of concern.

STATISTICAL ANNEX

STATISTICAL DATA (as of 14 September 2009) Kosovo under UNSCR 1244/99

Basic data	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population (thousand)		:	:	:	:	1 985	2 016	2 041	2 100	2 127	2 153
Total area (km ²)		10 887	10 887	10 887	10 887	10 887	10 887	10 887	10 887	10 887	10 887

National accounts	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross domestic product (GDP) (million national currency)		:	:	:	:	:	:	:	:	:	:
GDP (million euro)	1)	:	:	1 624	1 735p	1 797p	3 007p	3 068p	3 192p	3 434p	:
GDP (euro per capita)	1) 2)	:	:	:	:	905p	1 473p	1 482p	1 520p	1 612p	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:	:	:	:	:
SI: GDP (in PPS per capita, EU-27=100)		:	:	:	:	:	:	:	:	:	:
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)		:	:	:	1.2p	3.1p	:	:	:	:	:
SI: Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Labour productivity (GDP in PPS per person employed, EU-27=100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)		:	:	:	:	:	:	:	:	:	:
Agriculture		:	:	:	:	:	:	:	:	:	:
Industry		:	:	:	:	:	:	:	:	:	:
Construction		:	:	:	:	:	:	:	:	:	:
Services		:	:	:	:	:	:	:	:	:	:
Final consumption expenditure, as a share of GDP (%)		:	:	163.1	151.6	147.5	109.7p	111.9p	111.5p	114.0p	:
Gross fixed capital formation, as a share of GDP (%)	3)	:	:	40.7	34.5	29.3	19.4p	19.3p	20.6p	21.7p	:
Changes in inventories, as a share of GDP (%)		:	:	:	:	:	3.9	4.2	4.4	4.3p	:
Exports of goods and services, relative to GDP (%)		:	:	16.6	12.5p	10.4p	7.1p	7.0p	8.9p	10.4p	:
Imports of goods and services, relative to GDP (%)		:	:	120.4	98.6p	87.1p	40.1p	42.5p	45.5p	50.3p	:

Industry	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Industrial production volume index (2000=100)		:	:	:	:	:	:	:	:	:	:

Inflation rate	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SI: Consumer price index (CPI), (total, % change on previous year)		:	:	:	-1.0	0.3	-0.8	-2.1	-1.5	2.8	12.4

Balance of payments	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Balance of payments: current account total (million euro)		:	:	228e	-104e	-204e	-297	-301	-330	-428	-744
Balance of payments current account: trade balance (million euro)		:	:	-646	-890	-941	-973	-1 044	-1 141	-1 338	-1 639

Balance of payments current account: net services (million euro)		:	:	10e	-23e	-14e	-21	-44	-22	-33	-19
Balance of payments current account: net income (million euro)		:	:	141e	154e	152e	140	147	155	184	143
Balance of payments current account: net current transfers (million euro)		:	:	723e	655e	599e	555	640	678	759	771
of which government transfers (million euro)		:	:	809e	661e	490e	336	366	318	323	289
Net foreign direct investment (FDI) (million euro)		:	:	:	:	:	19	80	244	414	340
Foreign direct investment (FDI) abroad (million euro)		:	:	:	:	:	0	0	-4	-7	-19
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)		:	:	:	:	:	19	80	249	421	360
of which FDI of EU-27 countries in the reporting economy (million euro)		:	:	:	:	:	:	:	:	:	:

Public finance	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government deficit/surplus, relative to GDP (%)		:	:	:	8.4	2.2	2.7	:	:	:	:
SI: General government debt, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:

Financial indicators	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		:	761	971	998	891	713	572	:	:	:
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		:	761	1 096	1 126	1 111	1 128	1 092	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)		:	3	26	87	233	374	514	637	892	1 183
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)		:	:	:	:	:	14.7	14.4	14.5	14.6	14.8
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	2.8	2.9	3.0	3.3	4.2
euro exchange rates: average of period - 1 euro = ... national currency	1)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		:	62	296	337	423	311	278	356	647	670

External trade	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Value of imports: all goods, all partners (million euro)		:	:	:	:	:	1 063	1 157	1 306	1 576	1 928
Value of exports: all goods, all partners (million euro)		:	:	:	:	:	57	56	111	165	198
Trade balance: all goods, all partners (million euro)		:	:	:	:	:	-1 007	-1 101	-1 195	-1 411	-1 730
Terms of trade (export price index / import price index, 1998 =100)		:	:	:	:	:	:	:	:	:	:
Share of exports to EU-27 countries in value of total exports (%)		:	:	:	:	:	29.4	38.4	38.0	42.0	47.4
Share of imports from EU-27 countries in value of total imports (%)		:	:	:	:	:	39.5	37.3	34.4	36.3	36.4

Demography	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		:	:	:	:	12.8	14.1	14.6	12.7	12.4	:
Infant mortality rate: deaths of children under one year of age per 1000 live births		:	:	:	11.2	15.1	11.8	9.6	12.7	11.1	9.7

Life expectancy at birth: male (years)		:	:	:	:	67.0	:	:	:	:	:
Life expectancy at birth: female (years)		:	:	:	:	71.0	:	:	:	:	:

Labour market	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		:	:	45.6	52.8	50.3	46.2	49.2	52.3	46.8	:
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)		:	:	19.6	23.8	25.3	27.7	28.5	28.7	26.2	:
Share of male population aged 15-64 that is in employment (%)		:	:	31.1	39.4	42.8	46.4	45.8	46.1	40.1	:
Share of female population aged 15-64 that is in employment (%)		:	:	8.1	8.8	8.3	9.9	11.7	11.8	12.7	:
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		:	:	16.7	18.4	20.1	23.9	25.2	26.3	24.6	:
Employment by main sectors (%)											
Agriculture		:	:	:	:	:	:	:	:	:	:
Industry		:	:	:	:	:	:	:	:	:	:
Construction		:	:	:	:	:	:	:	:	:	:
Services		:	:	:	:	:	:	:	:	:	:
SI: Unemployment rate: share of labour force that is unemployed (%)		:	:	57.1	55.0	49.7	39.7	41.4	44.9	43.6	:
Share of male labour force that is unemployed (%)		:	:	51.8	45.2	40.3	31.5	32.9	34.6	38.5	:
Share of female labour force that is unemployed (%)		:	:	69.9	74.5	71.9	60.7	60.5	61.6	55.2	:
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		:	:	80.0	77.7	74.9	66.5	70.5	75.5	70.0	:
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)		:	:	47.6	47.3	42.7	34.9	34.7	41.1	37.1	:

Social cohesion	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average nominal monthly wages and salaries (national currency)		:	:	:	:	:	:	:	:	:	:
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)		:	:	:	:	:	:	:	:	:	:
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)		:	:	:	:	:	:	:	:	:	:

Standard of living	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of passenger cars per 1000 population		:	:	:	:	:	:	50.2	69.9	68.7	74.1
Number of subscriptions to cellular mobile telephone services per 1000 population		:	:	:	:	158.7	169.5	:	:	:	376.2

Infrastructure	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Density of railway network (lines in operation, per 1000 km ²)		:	:	:	:	:	39.5	:	:	:	:
Length of motorways (thousand km)		:	:	:	:	:	:	0.0	0.0	0.0	0.0

Innovation and research	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SI: Spending on human resources (public expenditure on education) relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Gross domestic expenditure on research & development, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	:	:	:

Environment	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:

SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP 2004)		:	:	:	:	:	:	:	:	:	:	:
SI: Share of renewable energy in electricity consumption (%)		:	:	:	:	:	:	:	:	:	:	:
SI: Road freight transport as a share of total inland freight transport (modal split of freight transport) (%)		:	:	:	:	:	:	:	:	:	:	:

Energy	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)	4)	:	:	:	3 853	4 507	3 944	4 455	4 553	4 681	5 466
Primary production of natural gas (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Net imports of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Gross inland energy consumption (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Electricity generation (thousand GWh)		:	:	:	3.2	3.2	3.5	4.0	4.0	4.3	:

Agriculture	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	:	:	:	:	:	:	:	:	:
Total utilised agricultural area (thousand hectare)		:	:	539	:	:	:	:	:	:	:
Livestock: cattle (thousand heads, end of period)		:	289	347	319	:	335	352	382	322	:
Livestock: pigs (thousand heads, end of period)		:	59	75	110	:	55	47	68	40	:
Livestock: sheep and goats (thousand heads, end of period)		:	193	230	116	:	106	152	113	152	:
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		:	:	:	:	:	:	:	:	:	:
Crop production: cereals (including rice) (thousand tonnes, harvested production)		:	:	459	396	:	408	441	392	295	:
Crop production: sugar beet (thousand tonnes, harvested production)		:	:	:	:	:	:	:	:	:	:
Crop production: vegetables (thousand tonnes, harvested production)		:	:	169	135	:	150	289	172	117	:

SI = Structural indicators

: = not available

p = provisional value

e = estimated value

- 1) No official national currency exists. Euro is the currency in use.
- 2) Source: Statistical Office of Kosovo provisional data for 2004-2006 (at current prices).
- 3) Investment: including donor sector, general government, and private investment (housing and other).
- 4) Data collected from the Kosovo Energy Corporation (KEK).